

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 MAY 4, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, May 4, 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 the minutes of the March 9, 2010 meeting – Albro

Second - Tarleton

Motion carried by the following vote:

In Favor: Albro, Tarleton

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

Moss Adams Exit Conference

Commissioner Tarleton stated that the Moss Adams Exit Conference presentation which was scheduled on the agenda would be postponed until the June meeting, allowing for more time to review the final written report from staff regarding the audit.

Dan Thomas, Chief Financial Officer, confirmed that delaying this presentation until June would not affect the meeting of any deadlines.

Internal Audit Report of Information and Technology Communications (ICT) Department

Documents provided: Management [letter](#) to ICT Department and Internal Audit [Report](#)

Presenters: Ms. Kirangi and Jack Hutchinson, Manager, Internal Audit

Mr. Hutchinson noted that two groups within ICT had been audited for the period of January, 2007 through December, 2008 – ICT Administration and ICT Service Delivery. He stated that the ICT Department is comprised of four distinct operational units and noted that these two business units account for the majority of expenses within the ICT Department. He provided brief background information on the two units reviewed, noting that on an annual average basis, the Administration unit has expenses of approximately \$2 million and the Service Delivery unit of approximately \$5 million.

He noted that the Service Delivery unit is comprised of the Desk Services unit, which provides help-desk support by troubleshooting information technology issues over the phone, and Client Service, which provides computer and desktop support such as installing software and set-up of computers.

Mr. Hutchinson stated that the Administration unit actually consists of the following 5 distinct and unique work units:

- Business Analysis Team
- Project Management Unit
- Financial Services Unit
- Contract Management Unit
- Administration Unit

He noted that the two groups reviewed are made up of approximately 50 FTE's, both in payroll categories of exempt and non-exempt.

Mr. Hutchinson stated as part of this departmental audit, all operations of the department were under consideration for review, noting that it was a comprehensive, risk-based audit. He stated that the audit was conducted from both a compliance and an operational perspective.

For the period of 2007-2008 covered in the ICT audit, Mr. Hutchinson stated that no significant issues were found to be included in the report. However, there were some weaknesses identified, which were communicated to management in the management letter. The weaknesses identified included the areas of accountability of equipment; accountability of non-capitalized IT equipment; and surplussing of equipment to the State.

Peter Garlock, Chief Information Officer, clarified that two of the three issues included in the management letter were actually related to functions outside of the ICT department. Mr. Hutchinson agreed, noting that the issues had been brought forward to the ICT management for value-added purposes.

Responding to Commissioner Albro's question about possible next steps related to the issue of surplus of equipment, Mr. Yoshitani commented that the State needs to be notified that might be a problem with documentation of equipment received by them, and if there are weaknesses on their part, they need to be corrected, as well as any weaknesses on the Port's part.

Commissioner Albro stated that he would like to hear back after that conversation.

Commissioner Tarleton stated that she wants to have this as a specific follow-up action, noting a concern about equipment possibly carrying private data.

Mr. Garlock replied that before equipment goes through the surplus process, it goes through a rigorous process, which scrubs all of the data residing there. He also noted that ICT is working on ways to mitigate risks which exist when employees use their laptops while at home or travelling.

Commissioner Tarleton stated that as an additional follow-up item to looking at surplussing, she would like to have a review of the internal processes and controls for how effectively management is being helped to understand what tools are available to them for the tracking of their equipment which is valued at less than \$20,000.

Mr. Garlock noted that all equipment that is issued by ICT has a barcode tag, and that it should be relatively simple to delegate that barcode tracking to individual departments.

Internal Audit Report of Portside Café Management Services Agreement

Presentation document: Internal Audit [Report](#)

Presenter: Joyce Kirangi

Ms. Kirangi provided a brief background of the Portside Café, the food management program at Pier 69. She noted that the audit had been conducted as the result of a request from Real Estate Division management, in preparation for a Request for Proposals (RFP) soon to be issued for a new contract. The period of the audit was from January, 2008 through December, 2009.

Ms. Kirangi reviewed the main objectives of this audit as determining whether Port management has established a system of adequate monitoring to reasonably ensure compliance with the agreement; whether financial transactions were Portside Café-related and completely recorded with proper supporting documentation; and, whether the management agreement, as amended, complies with applicable state and Port rules and regulations.

Ms. Kirangi noted that the original Third Party Management agreement was entered into in 1992, and since that time it has had various vendors who have been in charge of the food service itself, and has been operated by Consolidated Food Management (CFM) since 1998. Ms. Kirangi noted that the original agreement was a one-year agreement with options to renew for two one-year terms. Based on that agreement, the entire agreement could have been for three years. She noted, however, that since the year 2000, there has not been a valid agreement.

Regarding financial issues, Ms. Kirangi stated that the Café has been operating at a loss of an average of \$150,000 for a number of years. She also clarified that as part of the agreement, the vendor was to operate on a break-even basis. She stated that the opinion of the Port's legal department is that it is improper for the Port to, in effect, subsidize the Café for this amount.

Another issue raised as a result of the audit was the lack of inventory taken in order to ascertain the true Cost of Goods Sold, spoiling, or loss.

Ms. Kirangi also noted that payroll taxes and benefits were being paid on a fixed percentage/amount rather than on actual costs incurred.

Over the entire area of ineffective monitoring, the audit resulted in suggested recoveries of approximately \$70,000 for the two-year audit period.

Ms. Kirangi then commented on the findings in the area of non-compliance with State regulations as follows:

- Daily cash receipts were not deposited with the Port Treasurer
- Operating expenses were not subject to Port's certification or Commission approval
- The agreement, as written, does not comply with state records retention requirements
- No evidence found where Port management had consulted with Department of Services for the Blind regarding the department's primary right to operate food services/cafeterias in a public building
- Public funds were used to subsidize the Café

Ms. Kirangi commented on the importance of rethinking the current structure of the food services plan before issuing the upcoming RFP.

CEO Yoshitani reiterated the value of having an internal audit team, and stated that he agrees with all of the findings of this audit, and that as a result, he had made the decision to terminate the operations of the Café effective 3:00 p.m. on April 30, 2010. He noted that all inventory was donated to shelters or other worthwhile causes. He also stated that he believes it appropriate to pursue to the extent possible, the collecting of funds which were subsidized.

Mr. Yoshitani commented on the value of having an operation similar to the Portside Café within the building, and noted he has asked the Corporate Facilities Manager, Nick Milos, to look into other possible models for the future, and stated that he will be seeking an accelerated process in order to replace this type of service as quickly as possible.

Mr. Miller raised the question of the whether the revenues as reported were correct as it could affect the correctness of the reported subsidy. Ms. Kirangi responded that she did not have an issue with the revenues, so the amount of the subsidy was probably stated correctly.

Mr. Miller also voiced concern about how the adequacy of revenues and how that could affect vendors who might respond.

Commissioner Albro commented on the need to look at not only the model to be used going forward, but also lessons learned and what got us here with this agreement, and the adequacy of management and behavior of third party management.

He stated that he would like to see management perform an exhaustive review of potential financial recovery beyond just the two years which were looked at during this audit period; instead going to what the statute of limitations allows.

Commissioner Tarleton noted her concurrence with Commissioner Albro's request, stating that she would also like to have a review of third party management agreements in general, noting that it can be difficult to implement the terms and conditions of such agreements.

Status Report of State Auditor's Office (SAO) Performance and Accountability Audits

Presenter: Rudy Caluza, Director, Accounting and Financial Reporting

Mr. Caluza noted that this audit had begun in the Spring of 2009, at which time the entrance conference occurred. Field work occurred during Spring, Summer and early Fall of that year. Preliminary observations were received from the SAO in October, 2009 and a response was provided by the Port in December. He stated that staff is still waiting to hear what the draft findings and recommendations will be.

Mr. Caluza stated that a draft report will be provided to the report, after which the Port will have the opportunity to respond before the final draft report is issued. At that time, the Port will be able to respond once again before the final report is issued. He stated that the draft audit report is expected to be received in mid- to late May, and a final draft report in late June or July. He thought that perhaps the final report would be issued sometime in July.

Commissioner Albro suggested the possibility of the Committee holding an Executive Session to review the reports in advance of them being issued publicly; however, it was unclear as to whether an Executive Session is legally allowed to be held by this Committee.

Discussion of Audit Committee Issues

Presenter: Tom Barnard, Research and Policy Analyst

Mr. Barnard referred to the periodic review of work being done by the Audit Committee, a section which is included within the current Audit Committee Charter as a report to be provided on a quarterly basis to the Commission. He noted that this is perhaps not clear and/or necessary, and should perhaps be amended in the charter to state there should be an annual report.

Commissioner Albro stated he would like to take the suggestion under advisement and give it more thought.

CEO Yoshitani raised the possibility of providing to all Commissioners a complete packet of information related to Audit Committee meetings each month, thereby apprising them of all issues being discussed at the Committee meetings.

Commissioner Tarleton suggested making a final decision on this at next month's meeting, and also stated that she would like to have a full report to the full Commission in the near future.

Announcements

Commissioner Albro noted that Mr. Steve Miller will be leaving the Committee as the public of the Audit Committee, at the end of 2010, having fulfilled his commitment. He stated that there will be an announcement made to the public in the near future regarding applications to be accepted for this volunteer position on the Committee.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:57 a.m.

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