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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 JULY 13, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, July 13, 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

Approval of the minutes of the June, 2010 Audit Committee meeting was deferred until the August, 2010 meeting.

Departmental Audit – Fishermen’s Terminal

Presentation document: Internal Audit [Report](#)

Presenters: Ms. Kirangi and Andrew Medina, Senior Internal Auditor

Ms. Kirangi provided brief background of the decision to audit Fishermen’s Terminal, which was part of the project of looking at the revenue at all of the Port moorage facilities.

Mr. Medina stated that the audit period for this engagement was from January 1, 2008 through December 31, 2009, and also included an assessment of the current control environment. He noted that as a departmental audit, the primary focus was on items which are controlled directly by the Fishermen’s Terminal management and items coded directly to their budget.

Mr. Medina pointed out the importance of the impact of Fishermen's Terminal to the local economy, which provides revenues to local businesses, taxes for state and local governments, and creation of jobs for local citizens.

Mr. Medina noted that in preparation for the audit, information was gathered to provide a complete understanding of the operations of Fishermen's Terminal, and a comprehensive risk assessment was done in order to determine which areas would be focused on. Based on this information, the following areas were to determine if:

1. Locker rental and moorage revenue are complete and accurate
2. Payments are properly receipted and safeguarded
3. The Marina Management System provides adequate segregation of duties to ensure proper accountability of revenue, as well as the management tools necessary to effectively manage marina operations

With respect to the third objective, Mr. Medina stated that the new Marina Management System is a significant improvement over the previous system which was used, and noted that it is adequate for the recording of the marina's revenue, although some improvements had been identified and communicated to management in a separate management letter. He stated that this management letter was also used to identify some concerns related to tariff compliance.

Mr. Medina also addressed an audit finding related to moorage revenue, titled 'Ineffective Internal Controls to Ensure Complete and Accurate Moorage Revenue'. He reviewed two specific areas within this finding as ineffective controls to ensure complete billing and incomplete guest moorage information to substantiate billing and/or collection. He also reviewed recommendations provided to management as a result of this finding.

Commissioner Tarleton raised the issue of manual boat checks which are currently done to collect data, and asked about the possibility of doing so electronically instead. At the same time, she noted the importance of visual inspections of vessels at the terminal in order to keep aware of any changes that may occur. Mr. Medina stated that he believes a process similar to this may be used at Shilshole Marina, although a big difference in the two terminals is related to vessel movements.

Mr. Medina stated that staff has implemented short-term procedures to address the audit findings and are also working a long-term solution.

Commissioner Albro asked whether as a matter of policy, accepting cash for moorage, rather than credit cards, should be declined in order to maintain more stringent cash controls. Mr. Medina replied that it could be a risk to revenues.

Commissioner Albro suggested that management thoroughly assess whether the cost of the control related to these issues is worth the loss of market opportunity by not accepting cash.

Responding to a question raised by Mr. Miller regarding the facility being fully utilized, and whether or not it had been determined that a lack of utilization was a low risk, Mr. Medina stated that

although the facility was not completely full, it was a very busy time there while the audit field work was being done.

Commissioner Albro commented on the importance of the fishing industry to the area's economy.

Ms. Kirangi noted that the Port's marinas are currently on a three-year cycle in terms of an audit.

Kenny Lyles, Manager, Fishing Vessel Services, stated that management has accepted the audit findings and is on track for making recommended changes. He also noted that staff is embarking on an enterprise risk management process, and expect to have results from that by the end of this year.

Darlene Robertson, Director, Harbor Services, noted that management is working with ICT and accounting in looking at another set of marina management enhancements, and will also be looking at the possibility of an automated boat check system.

Departmental Audit – Port of Seattle Fire Department

Presentation document: Internal Audit [Report](#)

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

Ms. Kirangi stated that this was a very clean audit. It was noted that management of the Fire Department had expressed interest in having a review done by Internal Audit, and that a decision had been made early in the year to perform this review once the new Fire Chief was in place in the department.

Mr. Hutchinson reviewed the following four objectives of this audit:

- Monitor payroll to ensure that employees were compensated accurately and properly for hours actually worked
- Ensure that adequate controls are maintained over what are considered to be small and attractive assets
- Ensure that purchases of large equipment were properly procured in accordance with Port policies and procedures
- Ensure that the department maintains adequate controls over the processing of medical and dental claims under the Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF1) retirement system

Mr. Hutchinson noted that no significant issues were observed, and there were no findings. However, he stated that a management letter had been issued, noting opportunities to strengthen existing controls in the areas of the LEOFF1 medical and dental claims as well as controls over small tools and equipment.

Commissioner Tarleton commented that within the financial information section of the audit report, it was clear that efforts have been made to manage the department's expenses, and noted that she appreciate having a better understanding of this and how it might be sustainable going forward.

Discussion of Proposed Changes to Audit Committee Charter

Presentation document: [Memorandum](#) dated July 8, 2010 from Tom Barnard, Research and Policy Analyst

General recommendations for proposed changes were presented by Mr. Barnard as follows, allowing for time for Committee comment and discussion.

1. Suggestion to include specific one-year and three-year goals, which would be tracked.
2. Addition of language to the Charter regarding the formal approval of the Internal Audit Workplan
3. Possible addition of information regarding 'pre-audit' briefings, in order to provide advance insight as to what the Committee might want to see reviewed in more depth

Mr. Barnard commented on performance measures, which are being addressed by an Executive team, led by Kurt Beckett, Chief of Staff. Mr. Barnard noted that perhaps at some point, it might be a good thing for the Audit Committee to be brought in on this more fully, especially since the Committee intends to move towards its own performance audits.

4. Addition that the audit Committee seek formal budgetary authorizations for the Internal Audit Department

Commissioner Tarleton reiterated the importance of the Audit Committee reviewing their Charter annually and also that the Committee function remains relevant to the Port as it is today, and not just as it was three years ago.

Mr. Miller spoke in support of being a bit more formal regarding the Committee's long-term goals. He also commented on the value of breaking a long-term plan into discrete, measurable pieces, and stated that he believes what was done in the past was visioning, rather than long-term planning. Mr. Miller noted a desire to see input received from a broader group than just the Committee regarding the long-term goals and strategy.

In terms of both long-term goals for the Committee and the Charter, Mr. Miller also suggested that there be less focus on what the Committee does, and perhaps more on the 'why'.

Discussion followed regarding the Committee's role versus that of the full Commission as it relates to enterprise risk management, with Commissioner Albro also noting that the Port has accepted the notion of self auditing as part of being an effective organization, but that he does not want to see

the organization become audit-driven. He stated that an important focus is on not only risk management, but on opportunity management.

Commissioner Albro also stated his feeling that he believes the dual reporting structure of Internal Audit is perhaps problematic, and raised the thought of having an internal auditor reporting directly to the Commission and the Director of Commission staff, primarily to maintain true independence from the CEO, which may be the best structure to maintain checks and balances.

Regarding earlier comments of the Audit Committee having an opportunity-driven strategy, Commissioner Tarleton raised the question of how that would then get audited, and stated that she has seen audit committees get stuck in what they think the audit means, and it has no relationship to what the enterprise is actually doing, and that she does not want to see that happen.

CEO Yoshitani reiterated the fact that internal auditing has not only been accepted by staff, but has been embraced, and noted that internal auditing is one of many transformative changes which have taken place at the Port over the past three years.

Regarding the dual reporting structure of the internal audit function, Mr. Yoshitani stated that the organization exists for purposes other than internal auditing, and his role is to assure that the challenges of internal auditing do not overwhelm other things that are being done within the organization. He also noted also, that he does understand the independence that a Commission should have related to audits.

Mr. Yoshitani commented on initial progress being made regarding metrics issues, which he believes will be of great value to the organization.

Mr. Yoshitani then offered a suggestion to one of the proposed changes to the Committee Charter related to the Audit Committee receiving not only exit reports on audits, but also pre-audit briefings, noting that perhaps briefings on Port departments should be received by the full Commission rather than the Audit Committee alone.

For clarification of pre-audit briefings, Mr. Barnard noted that general departmental briefings were not being suggested; rather, when there is knowledge of an upcoming audit, in certain instances there be a introduction of that audit the month before in order to give the Committee an idea of what the audit will encompass.

Mr. Miller stated that he would prefer spending more time discussing and understanding the annual work plan than hearing reports of clean audits in terms of effective use of the Committee's time, and agreed that more information prior to an audit, as to what will be included in that audit, would be beneficial.

Commissioner Albro also commented on the use of public time, agreeing that it would be beneficial to spend more time on the work plan, and noting the importance of discussing things in public that matter, and are open for discussion.

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Mr. Barnard stated that it is now up to the Committee to approve changes to the Charter, and then those changes will be approved by the full Commission, noting that he would do a report to the Commission at that time regarding the work of the Committee. He suggested that the Committee approve the changes by the next Committee meeting, and that the full Commission would do so soon after.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:07 a.m.

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

Tom Albro
Secretary