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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 AUGUST 3, 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 9:15 a.m. by Commissioner Gael Tarleton. She then noted that there would be a change in the order of agenda items presented at the meeting.

**APPROVAL OF MINUTES**

Commissioner Albro suggested a revision in wording to the June 8 proposed meeting minutes to better characterize comments made by him regarding concerns of amending agreements unilaterally.

**Motion to amend minutes, as suggested – Tarleton**

**Second – Albro**

**Motion carried by the following vote:**

**In Favor: Albro, Tarleton (2)**

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

**Motion for approval of the minutes of the June 8, 2010 meeting, as amended – Albro**

**Second – Tarleton**

**Motion carried by the following vote:**

**In Favor: Albro, Tarleton (2)**

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

**Discussion of Public Member Recruitment for 2011**

A [document](#) for discussion was provided reflecting qualifications which were used for the initial public member recruitment, as well as proposed revisions to those qualifications.

Presenter: Tom Barnard, Research and Policy Analyst

At the beginning of the discussion, Mr. Miller raised the question of whether or not it will be a requirement that the next public Committee member be a resident of King County, and noted that he was not proposing this, but suggesting it be considered.

Several suggested revisions to the proposed 'new' version of the list of qualifications were discussed, including:

- Experience with generally accepted accounting principles (GAAP) and generally accepted ~~accounting~~ **auditing** standards (GAAS). (bullet 1)
- Question as to whether general or specific knowledge of GAAP and GAAS should be required (bullet 1)
- An understanding of, or experience with a public **sector** audit committee ~~functions~~ (bullet five)
- Commitment to a three-year term (new addition)

Mr. Barnard stated his belief that it should be a requirement that the public member be a resident of King County. Commissioners Tarleton and Albro concurred; however, Commissioner Albro stated that Mr. Miller has actually served more as an expert member of the Committee and that what he cares about is finding a replacement that can provide that same level of expertise, whether from King County or not.

Ms. Kirangi agreed that the primary focus should be more on the level of the applicant's expertise rather than where they reside.

Following further discussion, Commissioner Tarleton stated that she believes the applicants should be able to come from anywhere, with the focus being on their qualifications. It was decided not necessary to add as a qualification that the applicant must be a resident of King County.

Request was made to revise the opening statement of the proposed 'new' version as follows:  
"The Audit Committee is composed of two POS Commissioners and one **public independent expert** member. Commissioner Tarleton also noted that she wants it clear that applicants cannot come from inside the Port.

CEO Yoshitani suggested that in order to recruit appropriate applicants, the position be elevated as clearly as possible as to its importance.

Commissioner Tarleton noted that it needs to be clear that the principal amount of conversation by this Committee is held in public and that this should be included in the position description.

It was noted that the statement of opportunity would be made available sometime in September and the hope is to begin interviewing for the position sometime in October.

### **Audit Planning Updates**

Ms. Kirangi noted that the [two presentations](#) being given by Internal Audit today (CIP and Billings/Receivables) are to provide background information about audits currently in process, rather than waiting until the audit is completed to provide the exit report.

- **Capital Improvement Program (CIP)**

Presenter: Ms. Kirangi

Ms. Kirangi stated that this audit was driven by findings and recommendations related to the 2007 State Auditor's Office (SAO) audit report. She noted that doing this follow-up work will help assure a basic, strong foundation exists in terms of how the CIP is being managed. Ms. Kirangi stated that the objective is to make sure there is a good system in place with good controls, as well as policies and procedures that are meaningful in order to effectively manage that particular program. She also noted that the way in which staff responded to the SAO recommendations will be reviewed.

Commissioner Albro commented on the two audit objectives, stating that the audit scope addresses only the objective of looking at how staff responded to SAO recommendations, and he asked for further elaboration on determining if the Port has effectively managed its CIP.

Ms. Kirangi explained that this audit is being done in phases, and the way in which the CIP is managed will be looked at in terms of planning, design, construction and close-out. Each of these areas will be looked at to ensure the policies and procedures have been implemented in terms of effective management. She also stated that within this audit, there is not an objective to establish benchmarks with other organizations, but rather to ensure that there is compliance with Central Procurement Office (CPO) requirements.

CEO Yoshitani commented on the project in process of establishing performance metrics throughout the entire organization.

Commissioner Tarleton suggested that the scope of the audit be revised to clarify the audit will assess the Port's efforts to address significant recommendations from the 2001 SAO performance audit, **related to the Capital Improvement Program.**

Commissioner Albro commented that as more performance audits are taken on in the future, it is not sufficient to compare effectiveness of the organization only to its own measuring stick – it needs to be compared to some benchmarking. He suggested that the audit scope be revised to clarify that staff is going beyond the SAO recommendations to our own identified best practices. He said also that it may be a good time for the audit team to start scoping out how and when benchmarking could be done regarding these issues, and what resources would be required.

Ms. Kirangi provided background financial highlights related to the CIP for 2008 and 2009 with a breakdown by division.

She then reviewed the preliminary areas of focus of the audit as follows:

- Procurement of professional and personal services for Port's defined categories I and II, including compliance with CPO requirements. Regarding Category III services, she stated that these are not reviewed as the CPO is already heavily involved with those.
- Change Orders – evidence of documentation and due diligence over cost estimates, negotiation, monitoring and approval.
- Performance measures – assess established performance measures for reasonableness, practicality and effectiveness in measuring intended outcomes.

Commissioner Albro again spoke of the importance of being able to compare performance not only within the organization, but also externally.

CEO Yoshitani again commented again on the initiative of establishing performance metrics, noting the challenge he has given staff to look for outside, third party, certifying agencies, and stated that the further down in details you go, the more difficult it may be to find an appropriate third party assessor or a way to measure that unique performance against another institution.

Commissioner Albro agreed that this is much more achievable at the higher levels of an organization.

Ms. Kirangi noted that initially a baseline or foundation must be established before attempting to compare ourselves to other entities.

CEO Yoshitani reiterated that his role is to establish these performance measures, and it will be a function of Internal Audit to ensure that the measurements are being addressed correctly. Commissioner Albro agreed that this is something that should be driven by the CEO and Executive staff.

Additional areas of preliminary focus of this audit were as follows:

- Contract payments
  - Professional and Personal Services - adequate support and review of contract payment requests
  - Small works – adequate support and review of contract payment requests, including allowable labor and material; and overhead markups

- Major construction – adequate support for percentage of completion, subcontract markups, etc.

Mr. Miller commented on the focus on documentation as presented by Ms. Kirangi, and stated the importance of looking at the end result and reviewing processes and procedures all the way through the audit.

Mr. Miller then pointed out that the fact that performance measures will be reviewed is a very good fit in connection with risk assessment, as typically, things will be reviewed which are important in the management of the organization.

Mr. Yoshitani noted the importance of also looking at trends related to performance.

Mr. Miller then noted that when risk assessment is being done, 'objective setting is a precondition to risk identification and assessment.'

Mr. Miller then commented on the upcoming review of new procedures as well as documentation, noting that even though the inclination may be to overreact to what has happened in the past, it may be beneficial to include a cost-benefit analysis.

Commissioner Albro requested the following two things:

1. That this presentation be modified to reflect today's discussion and be brought back next month to the Audit Committee, and
2. That consideration be given to the resources necessary to determine whether or not management is doing a good job as related to performance measures

- **Billings and Receivables**

Presenters: Ms. Kirangi

Ms. Kirangi noted the objective of this audit as to determine if the Port has implemented effective controls to ensure that the Billing and Accounts Receivable system is efficient, complete and accurate. She stated that the audit scope will be the current practices used, rather than a review of past practices.

An overview was provided of the impact this system has across the organization, giving an idea of how much is billed within the different business units.

Ms. Kirangi reviewed audit procedures completed or in process as follows:

- Identification of potential risks facing a Billing and Accounts Receivable function
- In-depth data analysis
- Risk assessments
- Review of external auditor's working papers

Preliminary areas of focus were identified as follows:

- Logical separation of duties including system access
- Accounts receivable aging, including earlier issues raised regarding leases
- Credits
- Miscellaneous receipting and cash handling procedures at Pier 69

### **2010 Audit Work Plan Update**

Presenter: Jack Hutchinson, Manager, Internal Audit

Mr. Hutchinson provided a brief description of where the work plan currently stands, noting that the original work plan was comprised of 35 separate engagements. He noted that the majority of those engagements are at various stages of completion. He stated that, in addition, there is some outstanding work which had not been anticipated when the 2010 work plan was initially discussed.

One of the areas as having outstanding work to be done was noted to be related to Payment Card Industry (PCI) compliance issues, specifically at the Airport in connection with the parking system.

Mr. Hutchinson also noted that some of the ongoing work being done by Internal Audit is with audit work which spilled over from the 2009 work plan.

Rudy Caluza, Director, Accounting and Financial Reporting, clarified that the Port is very aware, and has taken responsibility with regard to the credit card industry standards. He noted that our systems are scanned quarterly by an external party to make sure they are not vulnerable, and if any vulnerabilities are discovered, they are brought to the attention of the ICT department to be addressed.

Commissioner Tarleton requested that at the next meeting, she would like to see which audits are actually on track and which ones may spill over into 2011.

### **Discussion of Proposed Changes to Audit Committee Charter**

Mr. Miller noted a technical correction on page 2 of the [document](#) provided as follows:

- The independent auditors' annual audit of the Port's financial statements, as well as related notes and management's **discussion and** analysis ~~of the findings~~.

CEO Yoshitani stated that due to timing issues, it may be necessary to have an additional Audit Committee meeting in September for a review of the SAO audit findings and recommendations, unless the Committee thinks this review needs to go before the full Commission.

Commissioner Albro raised the question of what role the Committee should play relative to the SAO audit in order to help prevent being in a reactionary mode.

Mr. Miller reiterated a suggestion he raised near the beginning of his term as a Committee member regarding establishing protocols on how to work through similar issues. He noted that in his experience with audit committees, auditors come, with management, to the audit committee, and have discussions that are not always available to the public, which he understands to not be an option with this Committee.

Commissioner Tarleton stated her belief that the full Commission needs to weigh in on establishing these protocols, and establish a principle about how the Commission wants to interact with the State Auditor's Office and the Commission and the CEO in the delegation of authority function.

CEO Yoshitani noted that whatever protocol is established would need to have input from the SAO, as they need to understand timing issues that are involved.

Commissioner Albro expressed frustration that it seems there could be a way in which the SAO, the Port Commission and the Executive staff could have conversations about preliminary, but that he is under the impression that the SAO is reluctant to brief the public on those findings. He noted that at this point he has not seen any of the preliminary findings.

Mr. Miller agreed that since the Committee does not have the authority to function in place of the full Commission without Commission directive, and suggested that perhaps all entrance and exit conferences with all auditors be removed from the Charter.

Discussion followed related to public versus private discussions of preliminary audit findings, and how the effectiveness of the Audit Committee is perceived if public discussions are only held after the SAO holds discussions in private.

Commissioner Tarleton suggested that a solution might be to ask that the Commission consider directing that the Audit Committee have the authority to engage in the private preliminary conversations.

Commissioner Albro stated that he is in favor of modifying the Charter to empower the Committee to meet privately with external auditors during the preliminary period of findings in the discussion with management.

Tom Barnard, Research and Policy Analyst, noted that as a standing committee of the Port Commission, the Audit Committee must remain in compliance with the Open Public Meetings Act, and such proposed private discussions would fall under the category of Executive Sessions, which have specific legal parameters. Mr. Yoshitani stated that he would check with General Counsel on this issue.

It was clarified that there would be further review of revisions of protocols which may be incorporated into the Charter.

Regarding any other proposed changes, Mr. Miller noted a minor consideration regarding Audit Department resources, stating his belief that the Audit Committee does really not need to be

involved in this issue unless that department was underfunded to the point where it could not complete its work effectively.

Following discussion, the recommendation was given that the following bullets be removed from the document provided:

- ~~Make formal recommendations to the Executive for increases in Internal Audit Department functions and capabilities.~~
- ~~Make formal recommendations to the Port of Seattle Commission to request increases to the Internal Audit Department's annual budget.~~

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:15 a.m.

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

Tom Albro  
Secretary