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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 SEPTEMBER 7, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, September 7, 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 July 13, 2010 minutes, as amended and the minutes of the August 3, 2010 meeting – 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

**Proposal to extend Moss Adams Audit Engagement Services for 2010 Operating Period**

Action Requested: Port Commission Audit Committee approval to seek Port Commission authorization for the Chief Executive Officer, Chief Financial and Administrative Officer, and the Director of Accounting and Financial Reporting, to extend the contract for Financial Statement, Single Audit (federal grant compliance) and Passenger Facility Charge auditing services of the Port's 2010 operating period with Moss Adams in the amount of \$577,600.

Presentation documents: [Memorandum](#) to CEO Yoshitani from Dan Thomas, Chief Financial and Administrative Officer; Rudy Caluza, Director, Accounting and Financial Reporting; and Lisa Lam, Senior Manager, Financial Reporting and Controls. Also provided was a copy of a [letter and fee proposal](#) to Mr. Caluza from Moss Adams dated July 27, 2010.

Presenters: Mr. Caluza and Ms. Lam.

Ms. Lam stated that today's request was for a final extension to the Port's contract with Moss Adams for 2010 which includes the Financial Statement, Single Audit and Passenger Facility Charge audit services. She provided background information on the contract, which was originally put in place in 2006 as a three-year contract with two options to extend that contract for one year. She noted that the services will include those audits previously noted, as well as that of the Warehousemen's Pension Trust Fund.

Ms. Lam highlighted the following items regarding the Moss Adams proposal:

- Scheduled timeframe of services would begin once this item has been approved by the Audit Committee and then has received authorization from the full Commission, which would be in October.
- Moss Adams has always committed to delivering reports on the Financial Statement Audit no later than April 30, a deadline which has been met by them each year. For both the Single Audit the Passenger Facility Charge Audit, their commitment has been to provide the finished reports no later than June 30, deadlines which have also been met or made in advance of that date.
- As part of the proposal, Moss Adams agreed to subcontract part of the audit service work with Branch Richards, a firm which the Port supports in its Small Business Initiative. It was noted that last year, Branch Richards provided approximately 5% of the audit work, and that for the next year, Moss Adams has committed to subcontracting up to 10% of the work.
- The fee for the proposed scope of work for the Moss Adams audit services will remain at a not-to-exceed amount the same as the fees for 2009, and they have committed to reduce their fees by 4%, barring any unusual circumstances.

Ms. Lam confirmed that next year a new RFP (request for proposals) would be issued for these audit services.

Mr. Caluza stated that, subject to the Committee's decision on this item, Moss Adams will return at next month's Committee meeting to provide a full briefing on their engagement services plan, as well as to receive direction as to areas of emphasis the Committee would like to see included in their work.

**Motion for approval of the Item – 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

**State Auditor's Office (SAO) 2009 Accountability Audit – Entrance Conference**

Presentation document: [Report](#) from State Auditor's Office

Presenters: Carol Ehlinger, Audit Manager; Tony Martinez, Assistant Audit Manager; Matt Lanier, Auditor in Charge

Mr. Martinez reviewed the mission of the State Auditor's Office as well as the audit authority and requirements of the SAO. He also noted that the scope of the audit being presented was for the period of January 1, 2009 through December 31, 2009, and included areas that posed the highest risk.

Mr. Martinez noted that areas of audit included the following:

- Procurement
- Disbursements
- Conflict of interest
- Insurance (new Port policy regarding insurance on privately moored boats)
- Revenue and receivables
- Loss reporting
- Contract compliance

He stated that at the completion of the audit, an accountability report will be prepared and distributed.

Mr. Martinez noted that a separate area of consideration is citizen hotline concerns, and one which is currently being looked at is the use of Port facilities by the U.S. Navy.

Mr. Martinez also noted that part of what the SAO team does prior to beginning their field work is to review the work done by Moss Adams to make sure they are satisfied with the work they do and agree with their conclusions and opinion.

Mr. Martinez noted that the cost of the SAO audit is estimated to be approximately \$54,165, plus travel expenses.

Mr. Martinez stated that the SAO will also perform the accountability audit of the Port Industrial Development Corporation (IDC), noting that this is done every three years. This audit will be for the period of January 1, 2006 through December 31, 2009, and the cost is estimated to be \$3,144.

Responding to a question from Commission Albro regarding the period of audit of the IDC, Ms. Ehlinger clarified that there had been a typo in the document, and the audit will actually be for the three-year period of 2007 – 2009.

**Presentations by Internal Audit Department**

Ms. Kirangi stated that the Internal Audit Department would be presenting today on two separate items, as noted below, and a computer slide [presentation](#) related to both was provided.

- **Review of Portwide Marketing Activities**

Presentation document: [Report](#) titled “Functional Review of Port-wide Marketing Activities – Current Practices”

Presenter: Bill Fovargue, Internal Auditor

Mr. Fovargue commented on what a functional audit involves, in that it includes reviewing a specific activity which crosses organizational lines, which in this case involved eleven separate organizational units. He stated that a common definition for marketing was developed since there were so many auditees involved, and there was agreement that marketing, for this audit, is defined as the processes and activities involved in promoting facilities and/or services of the Port. He noted that the scope of the audit was for current marketing practices in 2010.

Mr. Fovargue noted that Promotional Hosting was specifically excluded from the scope of this audit, as the SAO audits these expenditures yearly. He also noted that the SAO has commended the Port for their compliance in this area.

Mr. Fovargue stated that the audit objectives included assessing efficiency and effectiveness as well as reviewing performance metrics.

Mr. Fovargue stated that all groups agreed that it would be helpful in their work to have a marketing component included as a part their strategies. He also noted that it was also recommended that the various business units meet together on occasion to discuss best practices on more of a port-wide basis.

Mr. Fovargue noted that this had been a clean audit, with no significant issues found.

**Update on Internal Audit 2010 Work Plan**

Presenter: Jack Hutchinson, Manager, Internal Audit

Mr. Hutchinson noted that of the 35 audits approved for 2010 by the Audit Committee, 9 have been completed as of today and 6 are in stages of being wrapped up. Of the 20 remaining, he stated that 12 are in various stages of completion and the majority of those are related to concessionaires. Eight audits have not yet been started, but staff hopes to get to those by the end of the year.

Responding to Commissioner Tarleton's question as to how many of the audits not yet begun are truly doable in 2010 and which ones should be reconsidered for the 2011 workplan, Mr. Hutchinson stated that although it is difficult to estimate how many of these can be done, three of the eight are basically follow-ups to prior audit issues, are quite achievable. Regarding the remaining five, he reiterated that it is difficult to be certain.

Mr. Miller referred to comments made earlier regarding reporting of suspected losses. Regarding the Aviation Maintenance inventory follow-up that is being done, he raised the question of whether or not routine 'shrink' is considered as suspected loss, which requires reporting to the SAO. Ms. Kirangi stated that normal 'shrinkage' is excluded from reporting. She noted that suspected loss would be items such as equipment or computers, rather than small, less significant items.

Commissioner Tarleton proposed that in addition to the follow-up reporting that Mr. Hutchinson described, staff address, by the end of the year, those areas that might be up for recompetition, a lease renegotiation, or an option year extension or things similar in nature. She noted that she is specifically interested in the crane rental and the ABM contract; however, if these are not up for renewal in 2011, it is OK to not address them at this time.

Commissioner Tarleton also suggested that in the future, it may be better to have the Internal Audit workplan update mid-year.

#### **Final Approval of Changes to Audit Committee Charter (Charter)**

Presentation document: [Working documents](#) titled "Port of Seattle Audit Committee Charter"

Presenter: Tom Barnard, Commission Research and Policy Analyst

Mr. Barnard stated that the version being presented today incorporated suggestions from previous discussions on the topic, and noted that there are at least two issues which need to be discussed at this point. One of these is an issue which was raised in an email from Commissioner Tarleton suggesting a paragraph be added to the Charter which would explain 'why' the Committee does what it does, as opposed to just the 'what.' The second issue is the State Auditor's Office (SAO) performance audits and how those will be dealt with by the Committee.

Commissioner Tarleton read the following suggested language to be added at the beginning of the Charter, which she noted would address an issue raised by Mr. Miller at the July Committee meeting:

"The Audit Committee of the Port of Seattle Commission has the principal responsibility to identify risks that may affect the institution's ability to fulfill its mission as an economic engine for King County. As a standing committee, the Audit Committee oversees internal audits of the financial transactions and operational practices of the Port of Seattle. In order to exercise its oversight authority, the Committee directs the Internal Auditor and Port CEO to conduct internal audits and provide findings in public to the Audit Committee in order to help manage and mitigate identified

risk. The Committee assists the Seattle Port Commission in fulfilling its oversight responsibilities for:.....,” and at this point the language would proceed as currently written.

Commissioner Albro stated that he believes in the ‘why,’ there needs to be additional information included related to performance assessment, perhaps in the first sentence as follows: “...has the principle responsibility to assess performance and identify risks...”. Further discussion followed.

CEO Yoshitani commented on the first sentence, suggesting the responsibility as noted really belongs to the full Commission, rather than to the Audit Committee.

Mr. Miller noted that it might be important to somehow highlight that fact that the Committee is directly involved with Internal Audit, but not with external financial or performance audits.

Commissioner Tarleton stated that within this particular Charter, it is probably not possible to resolve the issue of the Committee’s responsibility of the external audits’ functions and oversight.

Commissioner Albro commented on distinguishing between and external audit which is directly procured from an external audit which is done ‘to us’ by someone else’s determination, such as the SAO.

Commissioner Tarleton raised the question of whether the SAO should present entrance and exit conferences to the Audit Committee or to the full Commission.

Mr. Barnard commented that the possibility of the Committee holding Executive Sessions to discuss parts of external audit results had also been raised, and after being reviewed by the legal department, it was concluded that this would not be allowed.

Mr. Barnard stated that in drafting revisions to the Charter, a section was removed regarding SAO entrance and exit conferences, and was replaced with a new bullet under the page two section of “Review with the Port’s External Auditors:....., “Any performance or accountability audits performed on the Port of Seattle. This will include a review of final audit findings and recommendations including management’s response and analysis.”

There was some disagreement on the Committee as to whether or not to include this proposed language. CEO Yoshitani commented on the importance of being able to discuss audit results which may be in error, prior to them being presented to the public. He stated that he believes more discussion about this is warranted.

Commissioner Albro noted that the Charter is still a work in progress and there is a need to allow for some flexibility and at the same time recognize that the Internal Audit function is working. He also commented on a degree of frustration by the fact that the SAO wants to be the agency which releases their audit findings to the public, while at the same time, with the Port being subject to the Open Public Meetings Act, there is no way to engage in the preliminary findings of the SAO, which then raises the concern raised earlier of possible inaccuracies.

Commissioner Albro raised the question of what the appropriate lines of reporting for Internal Audit might be in order to best assure the public's interest. This raised discussion of the current structure, which has the Internal Audit function with a dual reporting structure to both the CEO and the Commission president jointly. He proposed that the reporting structure should be changed, and that given the function and the responsibilities of the internal auditor, he suggests that this should line up more with the public side of the enterprise. He made the suggestion that, on page one of the proposed revised Charter, under the section of 'Duties', the following change be made:

"The Audit Committee will

- ~~Review with~~ **Oversee** the Director of Internal Audit Department **and review** the plans, activities, staffing, and organizational structure....."

Mr. Yoshitani stated that he has no problem if the reporting structure is changed, but also noted he had had some concern that the audit function could overwhelm the staff, and commented that our principle role and responsibility is to be an economic engine, rather than to be audited. At the same time, he did comment on the importance of the audit function. He spoke about the need to have balance between all of the work which is done by staff, and the audit function.

Mr. Barnard commented on the current heavy workload of the Internal Audit Department, and the importance of not creating a work overload for that department.

Mr. Miler stated that among the many models of internal audit function, a dual reporting model is one that is accepted, as is a model of reporting to the governing body or some component thereof.

Commissioner Tarleton commented on the importance of the audit function maintaining a level of independence. She also stated her appreciation that more than one model for reporting is acceptable, and that she understood earlier comments by Commissioner Albro related to the reporting structure. She also noted some concern of part-time Commissioners overseeing a full-time function.

Commissioner Tarleton stated that she would like to see this topic discussed in public with the full Commission. Commissioner Albro concurred, and noted his belief that more wordsmithing needs to be done before the Charter is finalized. He also noted that he is mindful of staff limitations, and agreed with Commissioner Tarleton that independence in auditing is key, and is vital in being able to trust information that is received.

Commissioner Tarleton stated her support of the redline version of the document which was presented, and asked that Mr. Barnard wordsmith the opening paragraph, taking into account comments made at the meeting. Regarding the section on duties and the reporting structure, she suggested that a note be placed at the end of the section, stating that Commissioner Albro proposes a discussion on the reporting structure of the internal audit function as part of a public discussion with the Commission.

Mr. Barnard noted that although the Charter would not be approved at this meeting, the next step in the process would be to incorporate changes as discussed and suggested, and then go to the

full Commission for their approval. At that time, the Commission could discuss anything not fully resolved, and then would approve the Charter.

Laurie Tish, Moss Adams, called attention to an section of the redline document, which refers to the composition of the Audit Committee, and suggested the following added language be added for clarification: "Each committee member will be independent of Port management and any external audit firm **currently providing services to the Port** ....."

Mr. Barnard noted an additional edit which may be needed in this section providing additional clarification of Committee members being independent of Port management.

Commissioner Albro suggested that two versions of the Charter be prepared for review; one with his proposed edits, and one without.

### **ADJOURNMENT**

There being no further business, the meeting was adjourned at 10:50 a.m.

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

Tom Albro  
Commissioner