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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 OCTOBER 5, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, October 5, 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

None.

Moss Adams Engagement Service Plan for 2010 Audits

Presentation documents: Computer slide [presentation](#) and copy of proposed [Engagement Service Plan from Moss Adams](#)

Presenter: Laurie Tish, Moss Adams

In her opening remarks, Ms. Tish clarified that as the Moss Adams proposed contract is expected to be formally approved later in the day at the meeting of the full Commission, her presentation is a bit preliminary. She stated that it was decided to make the presentation at this point, as otherwise it could not be provided to the Committee until their next meeting, the following month, and she noted that Moss Adams is hoping to begin their preliminary work before that time.

Commissioner Tarleton noted that due to Commission travel in September, there had not been opportunity to approve the Moss Adams contract extension before this time.

Ms. Tish commented on the purpose of the audit, noting the following three points:

- The audit is conducted to form an opinion on the fairness of presentation of the financial statements of the Port of Seattle, for both the enterprise fund and the warehousemen's pension trust fund.
- It is also conducted to consider the effectiveness of the Port's internal control structure and to examine the Port's compliance for the requirements of the Port's major federal awards and the Passenger Facilities Charge program
- Audits will be conducted both in accordance with generally accepted auditing standards and Government Auditing Standards.

A list of reports Moss Adams plans to issue was reviewed for the Committee by Ms. Tish.

Ms. Tish reviewed the phases of the audit, which begin with planning and risk assessment and then move to assessment of internal controls, work on substantive audit procedures, and finally report and present the audit results.

Ms. Tish then elaborated more on the planning and risk assessment phases, commenting on different factors which are reviewed and noting the following three categories of risk which are considered:

- Inherent risk
- Control risk
- Detection risk

She stated that the audit scope and approach is then determined based upon the results of risk assessment.

Discussion followed regarding the way in which 'materiality' plays a part in the audits conducted, and it was noted that both quantitative and qualitative factors are considered

Moving to the area of evaluating internal controls, Ms. Tish noted the following three objectives used in this process:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Ms. Tish stated that testing is designed around the following five components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

Commissioner Tarleton commented on potential risk of conducting audits at the same time systems are in transition, as will be the case during the upcoming year. Ms. Tish agreed, and noted that change management is one of the major areas looked at in detail each year, and during years when there are changes in major systems, even more time is taken than in other years.

Ms. Tish commented on a number of the Port's significant accounts and processes which have been identified as areas that Moss Adams plans to review at some level, including:

- Administration of federal awards
- Signatory Lease and Operating Agreement
- Capital projects
- Payroll
- Pollution remediation

Commissioner Tarleton suggested that perhaps another area Moss Adams could look at would be that of the Port's self-financing of medical plans, which is new to the Port's internal management. Ms. Tish agreed that this is something which could be added to the plan.

Responding to a question from Mr. Miller regarding eligibility, which had not been mentioned, Ms. Tish stated that this was not listed because it is not a direct and material requirement of the federal programs that had been reviewed in the past by Moss Adams. She noted that this would be brought back in, though, if there is a new major program this year that is applicable.

Ms. Tish then stated that after year-end, after the books are closed and trial balances are finalized, several types of substantive audit procedures are performed, which include tests of details and analytical procedures.

Ms. Tish commented on a new series of auditing standards which have recently been released and stated that these will all be incorporated into the audit approach.

Mr. Miller said it would be helpful to touch on the play between inherent risk and control risk. Ms. Tish replied that the audit work begins with the concept of inherent risk, and rates the risk as high, medium or low. The next stage is control risk related to the area, which is also rated. At this point, they are able to design a detailed set of tests that make the most sense in order to proceed.

Commissioner Tarleton commented on the importance of the Committee having a good understanding of change management risk issues, and stated that how the changes are dealt with is as important as the changes themselves.

Enterprise Risk Management – Pilot Study Results for Harbor Services Group

Presentation document: Computer slide [presentation](#)

Presenters: Dan Thomas, Chief Financial and Administrative Officer; Jeff Hollingsworth, Risk Manager; and Lauren Smith, Manager, HR Information System

Mr. Thomas provided introductory remarks to the presentation, noting that it is a result of earlier discussions with the Audit Committee and also the Executive team related to enterprise risk management (ERM), an established framework commonly used by the private sector, but becoming more common in the public sector as well. The framework is used for evaluating a broad view of risk to an organization, rather than that of individual departments or systems. He stated that the Harbor Services Group was selected for the pilot project, as the group is like a microcosm of the larger Port organization.

Ms. Smith provided a brief overview of ERM, noting that it is a process applied across an enterprise to identify potential risks and how significant they might be. She also commented on the following key points of the ERM pilot project:

- It is a process implemented within the entity
- It is geared to supporting the strategic objectives of the entity
- It evaluates risks based on likelihood and impact
- It addresses governance, structure, audit and compliance
- It recognizes that risk has both an upside and a downside
- It creates a common risk assessment platform

Ms. Smith noted that once the Harbor Services Group had been selected as the pilot group, the Port selected, from a pool of 3 candidates, Aon Risk Services as the consultant to assist with the study. The internal team assembled to run the project was made up of Mr. Hollingsworth, Ms. Kirangi, and Ms. Smith. Interviews were conducted of Harbor Services management, after which risks were identified. A facilitated workshop was then held to rank identified risks, based on impact and likelihood. The Executive Team was then briefed on the results of the pilot study.

Mr. Hollingsworth then reviewed the risks which had been identified in the study, and stated that the risks were assessed on the following criteria:

- Estimated likelihood of a risk's occurrence within the next 18-24 months
- Estimated impact on finances, operations, the community, and the environment

Responding to a question from Commissioner Tarleton regarding how the briefing was received by the Executive Team, CEO Yoshitani commented that the team felt it was a resounding success; well done, with good protocol and format established.

Commissioner Tarleton commented on the benefit of providing this information to not only the full Commission, but also to tenants.

Mr. Miller noted that this report provides pre-mitigation assessments, and that it will be important to also see how things look after mitigation, reflecting residual risk.

Mr. Miller also commented on the importance of objective setting, noting that it is a powerful tool of ERM, which he feels should be included in the process being used.

Internal Audit Department Reports

Presentation documents: Computer slide [presentation](#), and copies of individual reports, noted below.

Presenters: Ms. Kirangi; Jack Hutchinson, Manager, Internal Audit; Andy Medina, Senior Internal Auditor

Ms. Kirangi opened the presentation stating that two types of audits will be reviewed today – both lease and concessions audits as well as a system audit. She noted that the lease and concessions audits were completed for the period of 2008-2009.

Lease and Concessions: [Flying Food](#); [Gate Gourmet](#); [Sky Chefs](#); [Qdoba](#); and [Palino](#)

Mr. Hutchinson provided a brief history on the different types of lease and concessions arrangements with the in-flight kitchens and with the concessionaires. He noted that issues which resulted from similar audits in 2007 were reviewed in these recent audits. He stated that the issues were related to some payments being received late, as well as issues related to proper documentation of some revenues.

Mr. Hutchinson noted that financials were reviewed, as well as the agreements themselves, for terms and compliance. He stated that they found basically the same issues of payment timing as were found in the previous audits.

Responding to a question from Commissioner Albro regarding any related pursuit of recovery of funds, Jim Schone, Director, Aviation Business Development, stated that audit findings had been thoroughly reviewed; tenants will be contacted to discuss the findings; and staff would return in 90 days to the Audit Committee with further information on how issues are being resolved. He also acknowledged the importance of the role that the Internal Audit team plays.

System Audit – [Central Billing and Accounts Receivable System Audit](#)

Mr. Medina stated that this system audit was concerned with how Revenue Services processes bills and manages accounts receivable for the Port as a whole. He commented on the scope of the audit was current practices and how things are working at this point in time, rather than a backwards look.

Providing further clarification on the audit, Mr. Medina noted the audit objectives as follows:

To determine if the Port has implemented effective controls to ensure that the Billing and Accounts Receivable system is efficient, complete, and accurate with respect to:

- System access and segregation of duties
- Accounts receivable aging
- Credits and write-offs to customer account balances
- Pier 69 receipting and cash-handling procedures

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Mr. Medina stated that the results of the audit conducted are that it was a clean audit, with no audit findings and no management letter issued.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:56 a.m.

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

Tom Albro
Commissioner