



Exhibit "B"
Port Commission Regular
Meeting of Jan 11 2011

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November 22, 2010

Dear Auditor Sonntag,

The Port of Seattle Commission wants to commend the hard work of your staff on the near final State Auditor's Office (SAO) Performance Audit of the Port of Seattle, focusing on the Port's real estate practices. The Port of Seattle Commission shares with you the goal of effective, transparent, and highly performing government, and we have embraced this as our responsibility at the Port of Seattle. We appreciate the outside perspective, and take seriously our obligation to review the audit and provide a meaningful response.

Yet it is precisely this obligation that has put the Commission in an untenable position when the SAO's preferred procedures for finalizing and releasing performance audits are taken together with our obligations to oversee the Port in a manner that complies with all State laws, including the Open Public Meetings Act. Specifically, your procedures require that 1) no public discussion take place before you finalize the wording of the audit report and make the audit public, and 2) the Port of Seattle provides the SAO with a formal response to the audit for inclusion in the publication of the final draft.

As the Port of Seattle Commission is an elected executive body and is ultimately responsible for the Port's performance, the Commission as a body must ultimately approve the Port of Seattle's formal response to any audit and must do so in public. Unfortunately, we are unable to both fully discharge that duty and satisfy the SAO's requests as stated above.

Given the Port Commission's desire to provide both accountability and transparency, we would like to suggest a refinement to the process of finalizing the SAO audit and the Port's response, utilizing the Port Commission's Audit Committee and a process similar to that used to conclude the SAO Accountability Audit at our November 2, 2010 meeting.

During the past three years, the Port Commission has created a standing Audit Committee, including two Commissioners and a volunteer public member, and its work is now an integral part of the Port of Seattle. This committee meets monthly, in public, and meetings are audio web-streamed. The Audit Committee and the Internal Auditor develop an annual audit work plan governing the work of the Internal Auditor and the Audit Committee, and, as your 2007 Performance Audit Report recommended, the Port Internal Auditor reports to the Port Commission and the Port Chief Executive Officer (CEO).

Given that the Port Commission's oversight authority regarding external audits is now well-defined through the Audit Committee, as described in the attached Audit Committee Charter, we would like to suggest some changes to current practices relating to your external performance audits.

Currently, our external audits use the following process:

The external Auditor conducts an entrance conference briefing to the Audit Committee in public session, covering scope, work schedule, and timing of the audit, which is included in the annual Internal Audit Work Plan.

An in-progress update is given to the Audit Committee, as stipulated in the Auditors' work schedule.

A draft final audit report is reviewed by Audit Committee members and the CEO, and written responses are submitted for consideration by the external Auditors. This provides an opportunity for the external Auditors to incorporate any changes to the final audit report.

Finally, an Exit Conference briefing is given to the Audit Committee on the final audit report in public session for comment and discussion.

We suggest a similar procedure for wrapping up this audit and for all future SAO performance audits, with some modifications. The first draft of the audit could be reviewed internally by individual Commissioners and the CEO, and the initial feedback to the SAO would also be kept internal, as is the current practice. The Auditor would then use those comments to make any appropriate changes in the final draft report. This would insure that the first draft reviewed by the Commissioners and CEO and the initial Commission/CEO response back to the SAO would not be released in public, and give your office the opportunity to respond to our initial comments in drafting the final draft report. The Audit Committee and the Port of Seattle Commission would then respond publicly to that draft external performance audit and that, along with management's comments, would constitute the Port's formal response.

The Commission continues to strengthen its oversight role and that of the Audit Committee to ensure that the Port of Seattle is effectively and efficiently performing its core mission of creating jobs and economic vitality for King County. Public discussion about performance audits of our public agencies helps our citizens develop greater confidence in their government institutions.

We recognize that this is a work in progress and that you and your office may have other suggestions for improving the process to enable the Commission to both discharge its duties and support the SAO's effort. We welcome these and look forward to discussing them with you at the earliest opportunity so we can conclude this audit and lay a more workable process for subsequent ones.

Sincerely,



Gael Tarleton
Chairperson
Port of Seattle Commission Audit Committee



Tom Albro
Member
Port of Seattle Commission Audit Committee

CC: Seattle Port Commission Members

Tay Yoshitani, CEO, Port of Seattle

PORT OF SEATTLE AUDIT COMMITTEE CHARTER

Purpose and Authority

The Audit Committee is a standing committee created by the Seattle Port Commission. Its general purpose is to represent the Commission and have review and oversight authority on matters relating to the Port of Seattle auditing process and procedures. It will assist the Port of Seattle Commission in fulfilling its oversight responsibilities for:

- The integrity of the Port's financial statements,
- The effectiveness of the Port's internal control system over financial reporting, compliance and operations,
- The periodic performance audits to be conducted on Port of Seattle operations, programs, activities and business processes,
- The independent auditor's qualifications and independence, and
- The performance of the Port's internal audit function and independent auditors.

In carrying out these responsibilities, the Audit Committee shall determine that any audits, which are required to be conducted under the United States Government Accountability Office's Government Auditing Standards, are conducted in accordance with those standards. The Audit Committee shall provide opportunities for auditors to discharge their responsibilities for communication with those charged with governance as required under those standards.

The Audit Committee is empowered to seek any information it requires from Port of Seattle employees on departmental audit matters, all of whom are directed to cooperate with the Committee's requests. The Committee shall keep the CEO apprised of all such requests.

If the committee determines that in order to meet its responsibilities it requires the independent services of an outside advisor or consultant having expertise in financial reporting, auditing and internal controls, it may propose the retention of such advisor or consultant to the Commission for approval.

Duties

The Audit Committee will

- Review and recommend to the Commission, based on an open competitive process, the independent auditors to be selected to audit the financial statements and the federal grant and Passenger Facilities Charge programs of the Port of Seattle and other audit services.

- Oversee the Director of Internal Audit's plans and activities and review with the Director the staffing, and organizational structure of the internal audit function, including coordination of audit effort with the external auditors...", including coordination of audit effort with the external auditors. Audit Committee responsibilities will include:
 - Formally approve the Director of Internal Audits annual audit plan. The annual plan will include which departments, vendors, agreements, leases, and other areas that to be audited by the Director of Internal Audit and audit staff.
 - Review the findings and recommendations of internal audits conducted of these areas at the Port of Seattle, in regards to financial compliance, internal controls, performance and efficiency.
 - Monitor the progress of the internal audit function against its long-term goals and objectives.
 - Elicit any recommendations of the improvement of such internal controls or particular areas where new or more detailed controls or procedures are desirable. Schedule and hear reviews of these improvements presented by Port of Seattle staff as deemed necessary.
- Review with the Port's External Auditors:
 - The independent auditors' annual audit of the Port's financial statements, as well as related notes and related notes and management's discussion and analysis.
 - The management letter and the schedule of unadjusted differences.
 - The independent auditors' judgments about the quality of the Port's accounting principles as applied in its financial reporting.
 - The independent auditors' single audit of the federal grant awards administered by the Port.
 - 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.
- Review with performance auditors any performance audits conducted on Port of Seattle operations, programs, activities and business processes. In carrying out these responsibilities, the Audit Committee shall:
 - Encourage discussion between management, the Commission and other stakeholders in order to identify future potential areas of performance audit focus.
 - Provide recommendations to the Commission regarding specific audit areas for consideration, including suggested audit objectives, scope and evaluation criteria.

- If necessary, and only upon Commission approval, solicit proposals from independent auditing firms based on the approved performance audit objectives, scope and criteria, and recommend an independent auditing firm for appointment by the Commission if, after consulting with the Internal Audit Manager, it is determined that outside resources are necessary.
- Report the results of such audits to the Commission when completed.
- Discuss with management the Port's major policies with respect to risk assessment and risk management.
- Provide an annual report to the Commission that describes how the Audit Committee has discharged its duties and met its responsibilities. Commissioners who are Audit Committee members may make interim reports as necessary.

Internal Responsibilities

The Audit Committee will:

- Approve one and five year goals and objectives for the Audit Committee and monitor progress in achieving those goals and objectives.
- Review and assess the Audit Committee charter annually, requesting Commission approval for proposed changes.

Composition

The Audit Committee will consist of at least two (2) members of the Port of Seattle Commission and one (1) public member approved by the Commission. Commission members of the audit committee, as well as the committee chair, will be selected by the Commission President at the beginning of each calendar year.

The public member will be recommended by the Audit Committee for appointment and confirmation by the Commission. The public member may be removed during his or her term by the Commission President.

Each committee member will be independent of Port management and any external audit firm currently employed by the Port or subcontracted by any auditor employed by the Port. The public member must have the following qualifications:

- Experience with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS).
- Experience in the preparation or auditing of the financial statements of public entities.

- Experience in the application of GAAP in regards to estimates, accruals, and reserves.
- Experience in the assessment and evaluation of internal controls, including risk assessment.
- An understanding of, or experience with a public sector Audit Committee.
- An understanding of, or experience with, performance audits.
- Can make a commitment to serve a three year term.

The public member will serve as an advisor to the audit committee and is not considered a voting member of the committee for the purposes of quorum determination or voting on any official business of the committee.

Meetings

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.

All committee meeting are open public meetings.

A quorum of the committee is required to conduct official committee business. A quorum is defined as a majority of voting members.

The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.

Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and approved by the Audit Committee.