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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 JANUARY 11, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, November 2, 2010 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Committee members Commissioner Albro, Holland and Gehrke were present, as well as CEO Tay Yoshitani, Joyce Kirangi, Port Internal Audit Manager, and Commission Staff Tom Barnard.

CALL TO ORDER

The committee special meeting was called to order at 9:08 a.m. by Commissioner Albro.

OPENING REMARKS BY NEW AUDIT COMMITTEE MEMBERS ROBERT HOLLAND AND CHRISTINA GHERKE

Commissioner Holland remarked that he was looking forward to his appointment as an opportunity and learning experience. Ms. Gehrke mentioned, by request, her experience, including her business and academic experience. She was looking forward to representing the public. Commissioner Albro mentioned the importance of an outside expert, and that the public member is the expert member of the Committee.

APPROVAL OF MINUTES

No minutes were approved. Staff member Tom Barnard explained that no official minutes from November or December could be approved as the Audit Committee membership had changed. Next month's packet will contain December unofficial minutes, and the January minutes, which could be approved. The proposed unofficial minutes would be entered into the record but not approved. There were minor corrections offered to the unofficial November minutes on page 2, involving self-disclosure and self-discovery of findings by the State Auditor's Office.

Request Authorization to execute a [contract](#) for external audit services

Senior Audit Manager Lisa Lam introduced the requested authorization for the Chief Executive Officer to execute a contract for external audit professional services for a five-year period from 2011-2015. She provided a background of the existing contract with Moss Adams, LLC, and her proposed new competitively bid contract, which were covered in the memo. These included audits of

- Independent Audit and Opinion - Financial Statements of the Port's Enterprise Fund
- Independent Audit and Opinion - Financial Statements of the Warehousemen's Pension Trust Fund
- Independent Audit and Opinion – Net Revenue Available for Revenue Bond Debt Service
- "Single Audit" and Report of Federal Grants Awarded
- Passenger Facility Charge (PFC) Program Audit and Report

She gave figures for the value of the contract. She explained with new contract, there will be yearly service directives. She also explained how a small business could be part of the contract work. She finished by explaining the timeline of the new proposal for new briefings and approvals by the Audit Committee and the Commission.

Commissioner Albro noted that the Charter oversees the selection of the Port's external auditor. He thought the action being proposed was too sweeping, including the execution of the contract and all its terms. Although he acknowledged that this was past practice, he asked for discussion, and asked Ms. Gehrke

Ms. Gehrke stated that in her prior experience, results of the RFP process were reviewed by the Audit Committee, and it approved the choice of who the contract was awarded to. CEO Yoshitani noted that the issue goes beyond audit contract to the approval process for all contracts. He noted the importance of the Commission steering clear of the politics surrounding the actual award. "You delegate responsibility and authority to staff, which I re-delegate to an independent selection committee." Commissioner Holland stated it seemed strange to him that the RFP would be put together by people who are going to be audited, and inquired who actually puts the RFP together? He was told that it was the role of the CPO, not staff who is being audited. CEO Yoshitani pointed out that it was a policy issue, one way or another, and not make a decision based on this one contract.

Commissioner Albro stated that this contract is different, in that it looks at internal finances, and the institution had a vested interest in outcome of that work, which was not quite the same as in construction contracts. Given the nature of work and objective oversight the Committee should be willing to assume the political risk, and make the selection process transparent, and the Commission should review all aspects of the contract.

Mr. Barnard suggested a middle course, to examine the RFP before any external involvement, have the Committee weigh in on that, then let it go forward.

Ms. Gehrke stated that if the Audit Committee is involved in selection criteria, it could authorize the management recommendation, and then authorize execution. Other companies do this.

Commissioner Albro: asks for re-statement for motion

Ms. Gehrke restated the motion. CEO Yoshitani agreed, but he referred it to Rudy Caluza. Mr. Caluza said they would be prepared to present the RFP at the next Audit Committee meeting.

Holland moved the recommendation by Ms. Gehrke. The Audit Committee voted to approve it: 2-0

Update: [Airline Landing Fee Audit](#)

Presentation was made by Michael Ehl, Director of Aviation Operations. He explained the amounts and the process on airline landing fees, which are self-reporting. He characterized it as an outdated system, which does not benefit anyone. He also made the point that though allocative inaccuracies exist, the overall amount is the same and the airport has lost no revenue. He made some generic examples of misallocations. The Airport staff proactively identified the issues and Aviation Operations requested for an audit. This was agreed to by the airlines. They then requested this in the 2010 Audit Committee work plan. He described the Scope of Work which was an analysis of two years of flight data for 2008 and 2009, that reviewed landings, aircraft weights, and fees paid for all scheduled Signatory, Non-Signatory, Cargo, Charter Airlines. The results were presented at an AAC meeting in December. There were numerous examples of airline over and under-reporting landing fees. There was also an issue of some inconsistent reporting of non-revenue flights and a subsequent question as to what was the intent of Signatory Lease and Operating Agreement (SLOA). ACI Survey shows 58% charge, 42% do not charge for non-revenue flight activity. The airlines had a variety of different interpretations.

Staff made these recommendations to take into different understandings by different airlines:

- Acknowledge but not reconcile
- Airlines to report all Non-Revenue Landings effective April 2011 OR
- Airlines may amend existing agreement to waive non-revenue flights with associated consideration given to POS.
- Collection of LFs for Non-Revenue Landings per SLOA paragraph 8.2.3.
- Clarification of Non-Revenue Landing Definition
- Revised Monthly Reports and Invoices (Split Out)

Commissioner Albro noted this situation was also true with the FIS facility, in that airlines don't pay full cost. Mr. Ehl explained the subsidy which is a \$13 subsidy for all individuals.

Commissioner Albro was asked if there needed to be an action? Mr. Ehl suggested that none needed, as there will be a request for automating system that will come before the Commission.

Division Audit: Aviation Division [Overtime Audit](#)

Joyce Kirangi presented a Departmental Audit, presented by Bill Fovargue. He proceeded through the information in the report, and highlighted the comparative chart on page 4, which showed that overtime, when benchmarked against Boeing, were well within line.

Commissioner Albro asked who else was compared to, and Mr. Fovargue gave a general answer that the figure for the overall industry was 2.8%.

He then explained that the purpose of the audit was to determine whether the Division:

- Provides adequate oversight to ensure discretionary overtime is driven by operational necessity, as opposed to non-value added/low risk tasks.
- Manages overtime results based on achievable, realistic estimates and/or assumptions within established budgetary goals/targets.
- Manages overtime hours with an emphasis on costs/benefits with an awareness of risk-based alternatives.

He concluded that all these tasks were accomplished, and it was a clean Audit Report.

Commissioner Albro noted that the Management letter, notes there was a best practices opportunity, and asked Borgan Anderson to speak to it. He replied that Management is seeking the means for a separate Overtime line item in the Clarity Budgeting System. This should increase transparency and visibility of Overtime usage at Division level.

Mr. Barnard asked if there should be a report back? Commissioner Albro said no, but asked if this same report system is used by all operating divisions? Ms. Kirangi stated that information was there, but you have to go digging in all divisions. CEO Yoshitani noted that there was no standard procedure, and that every division was different.

Lease Audits: [Dollar Rent-A-Car](#) and [Fox Rent-A-Car](#)

The Audit Committee decided to postpone these audits, because they have not had a chance to review the management response. Ms. Kirangi responds that holiday schedule disrupted normal timing for giving full materials.

Discussion of 2011 Internal Audit [Work Plan](#)

Ms. Kirangi started by discussing the process used to come up with Work Plan, since she thought it useful for new Committee members. She spoke about the risk assessment document creation which was a lot of slicing and dicing data from different parts of the organization. She will provide the 2010 document, and the updated one for 2011 at next meeting. She further spoke of conducting interviews with department heads, and other lead management, and that these were almost done with all meetings. Based on that, Preliminary List of 2011 Audits was reviewed (spreadsheet). She went through the history from 2007, and then Jack Hutchinson took the Committee through the different categories of audits in the chart, while explaining that they look at activities both quantitatively and qualitatively.

Commissioner Albro wanted to know if this was an internal process or was the Executive Staff involved. CEO Yoshitani noted that this is a collaborative effort where they all review possible auditable areas. This is a great process, and also makes the staff more receptive to internal audit.

Ms. Gehrke wanted some information on internal resources in Internal Audit. Ms. Kirangi replied that resources have been the same since 2008. Ms. Gehrke asked how do you handle audits you don't have the resources for? Ms. Kirangi responded that they choose based on what is the highest priority, and that all high risk areas are covered.

Ms. Gehrke asked if the final document will get risk rating. Ms. Kirangi said yes, and Tom Barnard indicated that individual briefings would take place of that document.

Jack Hutchinson re-emphasized that If an audit gets dropped, we make sure we are not going to cause high risk or impact operations of port as whole.

Ms. Gehrke referenced the Long-term goals document, and asked if the current work plan followed the priorities stated in it. She specifically referenced the performance audit emphasis. There followed a discussion of performance audits, with Ms. Kirangi noting they were adding staff, but not to do individual performance audits, but have performance as an element of all audits.

CEO Yoshitani briefly reviewed the history of this question, noting that from a historical perspective, there were no audit resources before 2007, and that much progress has been made in staffing. He also stated that hiring a performance auditor had been discussed with prior Audit Committee, but that the State Auditors Office (SAO) handles performance audits, and that these were quite comprehensive, specialized, requiring expertise in that area. The POS doesn't have that inside resources, and it's better to hire it if needed on a contractual basis.

Tom Barnard noted that the Long-range Goals document serves as guide to a discussion.

Commissioner Albro said he appreciates the SAO, but is not certain of their expertise, due to highly specialized work the Port does, like airfield operations. He thought there is a need to find a way to address performance, but that was an ongoing discussion.

Commissioner Albro noted the preliminary work plan has 39 items, whereas only 23 were done for 2010. Ms. Kirangi replied the current 39 were a wish list, and it would be cut down.

Commissioner Albro asked if one item checked, an Airline audit, had been previously done? Ms. Kirangi replied no, that every year we will take one activity of airport and audit it.

Commissioner Albro asked about the ERM item. What was proposed concerning strategic planning? After some discussion, Commissioner Albro suggested that strategic planning go forward this year, and that Internal Audit look at it next year.

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.)