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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 FEBRUARY 1, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, February 1, 2011 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Committee members 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 meeting was called to order at 9:08 a.m. by Commissioner Albro (TA).

APPROVAL OF MINUTES FOR JANUARY, 2011

Motion for approval of the minutes for January, 2011 was moved by Commissioner Holland (RH). Audit Committee voted to approve the minutes, by a 2-0 vote.

Approval of draft RFQ for external audit services

This was presented by Lisa Lam, Senior Manager, AFR Department. Ms. Lam reviewed the draft of the RFQ. The draft was put together by the Central Procurement Office, with input from Accounting on work scope and evaluation criteria. Form of RFQ is standard. Draft shows the timeline put together by COP, with advertisement going out in February, with typical process of getting applicants and conducting interviews and consulting on answers. The plan is to come back to AC in May to notify them top candidates, before notifying winning bidder, or requesting full Commission permission to execute a contract. Evaluators will be Lisa Lam, another Assistant Director of AFR, and representatives from Aviation finance and budget, and Seaport and Real Estate finance and budget. Confer also with Internal Audit Director Joyce Kirangi to ensure the process was competitive and fair. All questions by prospective bidders will go to CPO, who will be fully present as well.

Committee member Christina Gehrke requested that they add Audit Committee approval to the timeline on page one. Staff concurred.

Committee member Albro noted that in May, the Committee would like to see all work papers on staff recommendation.

Holland made a motion for approval of the RFQ. The vote: 2-0

Review of current practices - Port's Travel and Entertainment Expenses

Internal Audit Director Joyce Kirangi. (JK) She reviewed four projects: Travel and Entertainment Expenses, two lease audits, and Internal Audit work plan for 2011.

Travel and Entertainment audit was presented by Senior Internal Auditor Staff Andrew Medina: (AM)

AM: Audit focused on current practices back to 2008, when Concur was implemented. Transaction involving four main accounts: airfare, lodging, employee food and beverage, and registrations in and out of state. There was also some non-travel and registrations.

Holland: What does Entertainment include?

JK: initially IA had intended to include promotional hosting, but it was taken out because of SAO work in this area. The title is a little misleading.

Tay Yoshitani (TY): Also training expenses are embedded. Police and Fire department need this training. That category is underrepresented, travel category is overrepresented. We will make adjustments to the next version that reflects our values.

TA: The bulk is related to those activities - some summary detail showed 60% in registration and tuition.

JK: clarify in 2009, push in reducing costs, can be seen in 2009. Cost in travel, training has gone down.

AM: Audit objectives: Does the port have effective monitoring, are port's policies and procedures compliant with state and other regulations. Risk-based audit of concur and other data, expense reports, benchmarked other performance data against other airports. Focused on current activities, for monitoring.

Holland: Who were we benchmarking against?

AM: 20 entities, 7-8 airports.

Holland: Since we closed international office, increased travel.

AM: Benchmarking directed on terminology and policy.

AM: CSR Testing showed at department level, reports looked at before approval and AFR review as well. Conclusions: Performance perspective, effective, and compliant, no findings. Couple items we noted, and communicated to management.

Christina Gehrke (CG): What was period of time for transactions, and number of transaction?

AM: not sure of the total number, 12 actual trips, multiple expense reports, going back to April of 2008. Sample selection risk-based, based on which months and which departments had most activity.

TA: one person, multiple people? Both. 12 out of how many? Total number unknown.

CG: Issues not high risk, but high profile.

JK: We focused on systems, do they have adequate controls. We pulled individual transactions to see how they work, but more on design. We look at the structure that has been put in place, and have adequate controls of oversight and monitoring – controls and design.

TA: That gives us a good benchmark, but might miss info. Next month give us more contextual information. And tell us at the beginning of the audit what features you focused on. Then tell us what data on trips, tested at what level.

TA: Also notice we have 740 Credit cards, raised some questions, does this mean that 40% of port employees carry cards?

JK: She clarifies that employees don't carry, don't have access. They are safeguarded in accounting department, with permission required for use. The number is not the issue, but having a system to protect and safeguard from abuse.

Lease Audits: Dollar Rent-A-Car and Fox Rent-A-Car

JK presented audits for rent-a-car leases with Dollar and Fox Rent-a-car. These audits are for compliance with terms and conditions. We also look at processes to manage leases at department. We check going back to obtaining detailed records from company. We look at detailed activity. Did they remit what they actually owe? Did payment come in on time? Possible financial charge? So in looking at figures on the graph on the slide.

TA: How did these numbers come from?

JK: They report on monthly basis on a self-reporting basis and then we look at details, coming from them. Is it accurate?

JK: Objectives: concession payment complete; reported in a timely fashion, terms and conditions of compliance, and state and local regulations. Also we look at Customer Facility Charges (CFCs.) Our conclusion: Dollar Rent-a-Car underreporting revenue streams, untimely payments. We are already pursuing payment back. For Dollar another issue of timely payment in 2008 – 2009. For period of 2010, System working now in 2010.

TA: Let's discuss more on this later.

JK: The same issues exist with Fox plus an underreported CFCs. Fox is not consistently collecting. We are seeking \$80,000 being sought by management. The new system is in place.

TA: Underreported revenue, and under collected CFCs. (adds up numbers) Three categories of underpayment, what is the management response?

TY: Typically, this is partly an issue of the ambiguity of contract. Ex: Is GPS part of revenue? Not unusual with these audits, companies not trying to circumvent policies. Turns to Jim Schone (JS).

JS: Management did agree with findings of audits, and have sent letters, asking for under reported funds and CFCs. Audits over the past years, they have been more responsive. But we have been successful in collecting. Good working relationships.

TA: Reviewed Dollar figures, good example of fees paid. Let's go back to late fee issue.

JS: Good relations with car companies, especially new with Fox. All companies been responsive.

Dan Thomas: prior to 2009, late fees not consistently enforced. We are now enforced, but not try and collect past fees. Effective of September of 2009, they are being enforced.

RH: agree with management approach. Should be no issues going forward.

CG: Given the new process put in 2009, in future, put statement in place noting that for older audits, compare process before and after.

TA: Change management response to say that we are not going to collect retroactively.

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

2011 work plan:

JK: Before going into 2011 Audit Plan, first there was an overview of the type of audits done at the port. Audit Department is very new. From 2008, hiring, recruiting and filling the department, only in the last two years are we doing full audits. Our goal is to add value to organization. Type of audits: we don't do are financial audits, but all financial activities that roll up to do that. Ex. Payroll, Accounts Payable. We focused more on input and processes. What is objective of department? What systems have been put into place to accomplish that objective? What is the risk? What are the laws that affect the contracting? Do we have effective internal controls, oversight? More on input, process, structure, so we know risk. What we have not done is output effectiveness and timeliness.

RH: So you are no performance audits, but more compliance, processes, risk management. You would not look at the performance of a particular terminal?

JK: No, we would need to hire an expert.

TA: his definition of a performance audit has changed, but this is not the mission. His prior definition was inputs, outputs and outcomes relative to results.

TY: Internal Audit focused on compliance of various kinds. Performance focused on what can we do better. We are rolling out this whole program of performance metrics. Do we elevate this to ask questions like how many jobs are we creating? Perhaps.

RH: We are doing outstanding, opportunities to look into possible changes. Are you capable of doing performance audits?

TA: Depends on which meaning.

JK: Depends on what question we are asking. Ex of vendors in social responsibility. I can determine how many vendors we are dealing with. But not in areas like cargo.

CG: Are we meeting objectives? Normally that is the performance of operational controls. Typical of where audit are as the Internal Audit operational piece.

RH: Performance metric separate, or report to us.

TA: There is a demarcation between the two. Changed my mind. Bright line between Internal Audit and business goals. Let management and Commission as a whole oversee performance metrics.

JH: He goes through operating revenue slide. First, 5-year operating revenue trend. More than half of this revenue comes from space rentals, then others like port-owned properties leased out, and car rentals. Then he went through by department node. Then by operating expenses. Then by account category. Then by FTE, extracted by PeopleSoft, includes all paychecks, including all part-time, interns. Then top 5 vendors in operating expenses. Then agreement-driven revenue. Then top 20 customers.

TA: If you went down to a million in revenue, how many entities are involved?

JH: about 110.

TA: Wants bell curve graph of dollars billed on x-axis, number of customers on y-axis.

JH: What would help is what we mean by customers?

TA: Customers with agreements. But never mind.

RH: As to the work plan do you think you can get through all these?

JH: First, let me go through resources.

TA: How did you do risk assessment? Give us bullet points of what you were trying to portray.

JH: 1) factor in contributing revenue. 2) 50% of resources to big revenue generators. 3) Continue to monitor audit management controls. (department and system audits). Our resources available: 9 FTEs, one vacancy, certifications of individuals. We have 10,000 available person hours. This divides up thusly: Administrative hours 25%. That leaves 8800-8900 hours. Contact managers for their perceptions of the risk. 25-26 individual projects for 2011. We have dropped off 6-9 projects.

TA: Let us open it up to general questions.

CG: 2010 category as planned or carried out.

JH: Six are being carried over.

CG: I see four at management suggesting, you are not doing, why?

JH: We are addressing same type of issues through similar audits, same nature.

CG: Of your special projects, what % of resources is being required?

JH: One special project is credit card, reserve degree of forces. 5-10% of resources.

TA: General discussion of the function of this Committee. What is value added? Function has grown over the last ten years. We have had both growth of both AC and internal auditor. Job of audit committee is to identify goals, and define what are our deliverables? What are our resources, what's the work plan, how do we monitor? We should make that part of the Committee's work throughout the year.

CG: I agree, what are goals of both the Committee and the Internal Audit functions.

RH: Good idea, especially for those of us who are new.

TY: Great question, difficult to define in practical application, example of IT function. There are always more projects asked of that function than we can actually do. Where do you draw the line? We could have an IT staff of 500. IA the same, when is enough, enough? When does this hit the law of diminishing returns? Current workforce feels good, we are at a good place.

JK: I agree, there needs to be an open discussion of what are the long-range goals and objectives. It should be constantly re-visited. It is a moving document, needs fine tuning. And agree with Tay, resources adequate,

TY: staff has really embraced internal audits, glad to see special projects category. Example of Port Café.

TB: In terms of assessing long-range goals and objectives, at impetus of Steve Miller, former public member, this is a logical point in time to look at it again, go back through it, with more robust audit function, document should be true to what we are doing.

TA: We changed Audit Charter, so this is the right time. So let us spend the first half of year updating, restating, clarifying its goals. Also we need to better understand risk assessment document. Then we need to agree on staffing levels of internal audit, as the process moves over time. How do we resource execution of the plan. We can add resource to address risk. Propose we move our cycle so we approve our plan in December. Lastly, we talk about ERM – what do we mean? What are our goals and objectives in relation to that? How does Internal Audit assess that?

TB: Logistical issue: next AC meeting is in April. Either no meeting, or no action. Cannot approve plan until April.

CG: Lets approve the plan, update and monitor it through the meeting.

TB: Good idea.

RH: moves approval of IA work plan. Vote: 2-0

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:06 a.m.

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

Rob Holland
Secretary