



**Commissioners**

Bill Bryant  
Commission President  
Tom Albro  
John Creighton  
Rob Holland  
Gael Tarleton

Tay Yoshitani  
Chief Executive Officer

P.O. Box 1209  
Seattle, Washington 98111  
[www.portseattle.org](http://www.portseattle.org)  
206.787.3000

*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 May 3, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, May 3, 2011, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members Commissioner Albro, Commissioner Holland, and Christina Gehrke were present, as well as Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Records Coordinator.

**CALL TO ORDER**

The committee special meeting was called to order at 9:05 a.m. by Commissioner Albro.

**Public Comment:**

Public Comment was received from Ms. Doris Cassan of Dollar Rent A Car, who commented on a recent audit by the Port of Seattle that noted that Dollar Rent A Car had not reimbursed the Port for commission on customers' payments to the rental company for fees associated with unreturned keys, postage to return lost items to customers, and fees collected to reconcile customers' traffic tickets for unpaid tolls.

**Approval of Minutes for April 5, 2011, Audit Committee Meeting:**

**On motion by Commissioner Holland, seconded by Commissioner Albro, the minutes of the Audit Committee Special Meeting of April 5, 2011, were approved.**

**2010 Moss Adams Audit Results:**

Ms. Laurie Tish, Partner with Moss Adams LLP, summarized the following audit reports issued by Moss Adams LLP:

- Unqualified opinion on financial statements dated April 22, 2011, covering statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund;
- Unqualified opinion on Schedule of Net Revenues Available for Revenue Bond Debt Service dated April 22, 2011;

- Audit and report on Schedule of Passenger Facility Charges (PFCs), receipts and expenditures and related internal controls dated April 22, 2011; and
- Audit and report on Federal Financial Assistance Programs and related internal controls and compliance ("Single Audit").

Ms. Tish stated that no material weaknesses were identified in these four reports, and no control deficiency letter would be issued, although the auditor made the following recommendations:

- More robust review of airlines' quarterly PFC reports; e.g., to ensure airlines' report responses are not left blank inadvertently; and
- Archiving East Marginal Way Program quarterly progress reports upon submission in a central location.

Ms. Tish noted that prior-year information technology matters were successfully resolved or in the process of being resolved and that no new matters were identified.

Ms. Tish commented on one finding of noncompliance related to back-funding of Federal claims from 2007 and 2008 and failure in 2010 to verify suspended or debarred parties for the back-funded claims. In response to Commissioner Albro, Ms. Tish explained that Moss Adams had performed the verification and noted no questioned costs.

Ms. Tish described the following areas of audit effort:

- Review of internal control environment, including testing design and implementation of key controls, assessing information technology controls, testing sample capital-assets-related systems such as payroll, cash disbursement and procurement, and leases, and budget and third-party transactions;
- Confirmation that management estimates are based on assumptions that conform to relevant generally accepted accounting principles;
- Analysis of business indicators and third-party data to develop reasonable expectations for operating revenue;
- Recalculation of Signatory Lease and Operating Agreement (SLOA) amounts;
- Review of lease accounting, including management lease review;
- Review of bonds and related accounts, including capitalized bond interest during a construction period being rolled into the capital asset in accordance with standard accounting principles;
- Examination of additions to and retirements from capital assets and other capitalization policies;
- Verification of the classification of net assets as unrestricted, restricted, or invested in capital assets;
- Review of the Warehousemen's Pension Trust Fund;
- Administration of federal awards and related administrative controls; and
- PFC Program audit, in which there were no findings noted.

In response to Commissioner Albro, Ms. Tish confirmed that loss of interest earnings on a partial equity investment is not typically capitalized and described the requirements applicable to arbitrage liability.

Ms. Tish stated the following communications, as required in accordance with Generally Accepted Auditing Standards:

- It is the auditor's responsibility to form and express an opinion about whether the financial statements are fairly presented and to plan and perform the audit in accordance with Generally Accepted Auditing Standards and Government Auditing Standards;
- The audit does not relieve management and the Board or the Audit Committee of its responsibilities;
- The audit was performed in accordance with the planned scope; there were no areas requiring deviation from the scope;
- The significant accounting policies summarized in Note 1 to the financial statements are consistent with prior years;
- Information related to management judgments and accounting estimates have been noted above;
- Financial statement disclosures in the notes to the financial statements were consistent, clear, and understandable;
- There were no proposed or passed audit adjustments;
- Management's letter of representation documenting their assumptions used in the various estimation accounts, asserting the completeness of the financial statements, and providing the schedule of federal awards was received;
- There were no disagreements with management;
- Moss Adams is aware of no consultation between management and other independent auditors;
- No difficulties were encountered during the audit;
- No illegal acts were noted;
- The auditor has no additional disclosures to make regarding the ability of the Port to continue as a going concern;
- No concerns of financial statement fraud were noted in the course of performing procedures involving interviews with Port management personnel and examination of unusual journal entries; and
- Moss Adams is independent with respect to the Port of Seattle.

Ms. Tish commended Port staff for their courteous, responsive, timely, and professional treatment of the auditors and noted that the audits progressed on time in an orderly fashion. She added that Branch Richards & Company personnel contributed approximately seven percent of the audit hours.

In response to Commissioner Albro, Mr. Barnard noted that the 2012 Comprehensive Annual Financial Report (CAFR) would be released in about a week. Commissioner Albro requested time on the June 7, 2011, Audit Committee agenda for committee questions subsequent to CAFR review.

**Selection of External Audit Services for Financial Statement, Single Audit, and Passenger Facility Charge Audit:**

Ms. Lisa Lam, Finance Reporting and Controls Senior Manager, reported that following Committee approval of evaluation criteria for a request for qualification (RFQ) for external audit services on February 1, 2011, four proposals were received. She described the review process and requested Committee approval of a request for Port Commission authorization to select Moss Adams to perform an external independent audit of financial statements and the federal grant and PFC programs of the Port of Seattle.

Ms. Lam stated that deliverables of the audit services include the following:

- Independent audit and opinion on financial statements of the Port's Enterprise Fund;
- Independent audit and opinion on financial statements of the Warehousemen's Pension Trust Fund;
- Computation of the net revenue available for revenue bond debt service;
- "Single audit" and report of federal grants awarded; and
- PFC Program audit and report.

Ms. Lam described the process for RFQ evaluation, which was conducted in accordance with Central Procurement Office protocol and observation by the Director of the Internal Audit Department, and she outlined the process for finalist interviews. Ms. Lam outlined the overall strengths of the highest ranked submission from Moss Adams.

Regarding audit fees, Ms. Lam explained that all proposals for the entire five-year period came to less than \$3,000,000, and funds will come from existing and future Accounting and Financial Reporting operating budgets and Port-wide non-operating budgets as appropriate.

She concluded by adding that all proposals submitted meet or exceed the Office of Social Responsibility's guidelines that at least ten percent of subcontracted work to be performed by small businesses.

In response to Ms. Gehrke, Ms. Lam stated that Moss Adams is just completing a five-year contract with the Port as external auditor. In response to Commissioner Albro, Ms. Lam clarified the format of the scoring summaries for submissions and interviews.

**On motion by Commissioner Holland, seconded by Commissioner Albro, the Committee agreed to recommend to the Port Commission selection of the firm of Moss Adams as the external independent auditors to audit the financial statements and the federal grant and Passenger Facilities Charge programs of the Port of Seattle.**

**Long-Range Goals and Objectives:**

Ms. Joyce Kirangi, Internal Audit Department Director, reported on types of audits available to the Internal Audit Department, noting that the type of audit performed is based on the applicable audit objective.

Ms. Kirangi described the following categories of audit:

- Financial audits, which are typically conducted by an outside firm to provide an independent assessment of whether an organization's reported financial information is presented fairly in accordance with applicable criteria, and may involve review of processes applicable to internal controls, legal and regulatory compliance, and contract or grant conditions;
- Performance audits, which measure program effectiveness relative to an organization's stated goals and objectives or focus on economy and efficiency by addressing costs or productivity, and may involve assessment of internal controls, compliance, and prospective analysis;
- Attestation audits, which involve an assertion about the organization's subject matter by a third party and therefore are not applicable to the Internal Audit Department by definition;
- Operational audits, which assess management controls to determine their effectiveness and may involve evaluation of internal controls, operational strategies, processes, policies, procedures, and measurement or monitoring systems;
- Compliance audits, which are conducted to review compliance with governing regulations and are aimed at increasing an organization's fiscal transparency; and
- IT audits, which review and assess design and effectiveness of computer general and application controls.

In response to Ms. Gehrke, Ms. Kirangi described differences between attestation and operational audits as related to lease and concession agreements, which Jack Hutchinson, Internal Audit Manager, characterized as engaging approximately 47 percent of Internal Audit resources.

Mr. Hutchinson described the remaining 53 percent of Internal Audit efforts as comprised of various systems audits, accountability audits, and performance audits. Ms. Gehrke asked for development of short, common definitions to clarify internal audit terminology on a single-page resource, and she described the Port's internal audit efforts in terms of comprehensive and limited-scope operational audits and lease and concession audits.

Further discussion ensued regarding the audit types represented in the Port's current internal audit efforts and the relationship of the internal auditing process with the establishment of performance measurements.

Additional discussion following concerning the executive role of the Port Commission and its delegation of authority to the Chief Executive Officer and the role of the Internal Audit Department in fostering confidence in the organization's compliance with Commission policies and informing decision-making about appropriate thresholds for delegation of authority.

At the request of Commissioner Albro, Ms. Gehrke described the composition and role of the Institute of Internal Auditors (IIA) to provide professional guidance worldwide to the auditing profession. Mr. Hutchinson stated that the Port's Internal Audit Department holds a group membership in the IIA, which informs the performance of their duties and provides useful resources and training opportunities.

Commissioner Albro proposed a comparison of the function of the Audit Committee to IIA standards to identify opportunities to encourage continued development toward industry best management practices for audit committees. He requested a briefing on this topic for the June 7, 2011, Committee meeting.

Ms. Gehrke suggested a comparison of current Port internal audit practices using the IIA assessment tool to identify possible opportunities for improvement and areas of IIA standards that may not be applicable to Port operations. Mr. Thomas underscored the importance of considering the nature of the Port's organization in evaluating the appropriateness of IIA standards. Ms. Kirangi pointed out the importance of applying governmental auditing standards in assessing the Port's internal auditing functions.

Commissioner Albro concluded by outlining the following priorities for further review by the Audit Committee in 2011: a comprehensive overview of the audit committee generally and internal audit specifically, use of external or special auditors as part of the Port's internal audit function, the Audit Committee's relationship with the Port Commission, and review of the Commission's delegation of authority. He requested action items and time lines as part of the June Audit Committee briefing.

#### **ADJOURNMENT**

There being no further business, the special meeting was adjourned at 10:59 a.m.

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

Rob Holland  
Secretary  
Minutes approved: June 7, 2011.