



**Commissioners**

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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 June 7, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, June 7, 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 Tay Yoshitani, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Rudy Caluza, Accounting and Financial Reporting Director; Jack Hutchinson, Internal Audit Manager; Bill Fovargue, Internal Auditor; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Records Coordinator.

Commissioner Albro participated by telephone.

**CALL TO ORDER**

The committee special meeting was called to order at 9:27 a.m. by Commissioner Holland.

**Public Comment:**

None.

**Approval of Audit Committee Meeting Minutes of May 3, 2011:**

On motion by Commissioner Albro, seconded by Commissioner Holland, the minutes of the Audit Committee Special Meeting of May 3, 2011, were approved.

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

On motion by Commissioner Albro, seconded by Commissioner Holland, the minutes of the Audit Committee Special Meeting of April 5, 2011, were amended to reflect correct staff attendance on April 5, 2011, and the correct previous meeting date of February 1, 2011, and were approved, as amended.

*Without objection, the Committee advanced to consideration of –*

**Operational Audit Seattle-Tacoma International Airport [Lost and Found](#):**

Ms. Kirangi described the operational audit of the Airport's lost and found services, noting the program is an example of a third-party partnership and is operated currently by the YWCA, who sent representatives to the Committee meeting today. She referred the Committee to the information in the audit report, which noted that information relating to calendar years 2008, 2009, and 2010 was reviewed, including fieldwork activity that concluded in May 2011. Ms Kirangi stated that no findings resulted from the audit.

Commissioner Albro requested additional information regarding lost items released to authorities and items destroyed. In response, Ms. Kirangi highlighted the variety of items processed through lost and found. Mr. Hutchinson described some items that might be destroyed after a reasonable period of time or that are not suitable for donation. He agreed to provide additional information related to items destroyed or released to authorities and the reasons for such disposition.

*The Committee returned to consideration of –*

**Management [Response to 2010 Moss Adams Audit](#):**

Mr. Caluza reported on the 2010 audit of Port finances by the firm of Moss Adams, noting the following:

- Audit results presented to the Audit Committee on May 3, 2011;
- Focus of the audit on financial statements and Comprehensive Annual Financial Report (CAFR), regulatory compliance for federal grants ("Single Audit"), and Passenger Facility Charge (PFC) Program;
- The Port's 2010 financial stewardship, including \$400 million current assets, \$5.5 billion net capital assets, \$3.3 billion long-term debt, \$470 million operating revenues, \$414 million operating and depreciation expenses, \$40 million in federal grants and American Recovery and Reinvestment Act (ARRA) expenditures, \$59 million in PFC revenues, and \$217 million in net operating income (NOI), which amounts to \$56 million after depreciation;
- Outcomes of the 2010 financial statement audit, including an unqualified ("clean") opinion, no findings relative to Generally Accepted Auditing Standards, no auditor letter of recommendations, no audit adjustments to financial statements required of management, issuance of the Port's CAFR ahead of schedule, and the very good overall results of the audit;
- Outcomes of the 2010 "Single Audit" of federal grants, including no questioned costs, no findings relative to internal controls, Port compliance in all material respects with federal grants regulatory requirements, and a minor compliance finding related to back-funding procedures for checking for ineligible contractors; and
- Outcomes of the 2010 PFC audit, which included no questioned costs, no internal controls findings, and no findings with respect to Federal Aviation Administration (FAA) regulatory requirements.

Mr. Caluza explained that the minor compliance finding in the Single Audit was a procedural weakness prior to 2009 that has since been corrected. He added that the 2010 audit did not

identify any ineligible contractors and that Moss Adams checked the Excluded Parties List System (EPLS) for Port contractors as part of the Single Audit and found no violations.

Mr. Caluza announced that the Port's CAFR will be submitted to the Government Finance Officers Association of the United States and Canada for consideration to receive the Certificate of Achievement for Excellence in Financial Reporting Award, which has been awarded to the Port consistently since 2005.

**Comprehensive Operational Audit Seattle-Tacoma International Airport Utilities:**

Regarding Airport utilities, Mr. Hutchinson reported that the department incurs approximately \$14 million annually in operating expenses. He stated that expenses not recovered in direct tenant billing are recovered through internal billings and Airport fees.

Mr. Hutchinson stated that the audit objectives were to determine whether management has implemented adequate controls to assure utility billing is complete, accurate, and in accordance with the tariff and to assure costs in the utility-rate calculation are relevant, reasonable, and complete. He noted that no findings resulted from the audit.

**Comprehensive Operational Audit Public Parking – Aviation Landside Operation:**

Ms. Kirangi described the comprehensive operational audit of the Airport's public parking operation, noting that the garage generates approximately \$50 million in annual revenues. She provided a summary of parking revenues and operating expenses for the years 2008, 2009, and 2010, and noted that parking revenue has decreased during this period to \$45 million.

Ms. Kirangi stated that the audit objectives were to determine whether management has adequate controls to ensure effective parking operations in compliance with applicable requirements, and specifically whether monitoring controls work effectively as intended in the areas of complete and proper assessment of high-risk transactions and determining whether overtime compensation is proper and reflects actual time worked.

Ms. Kirangi noted that information relating to calendar year 2010 was reviewed and described one finding resulting from the audit pertaining to incomplete management monitoring of exception parking transactions, such as lost or unreadable tickets. She stressed the importance of documenting deviations from standard procedures related to exception transactions.

Ms. Kirangi explained that, in instances where implementation of better controls are warranted, management is in agreement with the recommendations of the Internal Audit Department.

The presentation materials for this operational audit demonstrated the audit had concluded that overtime compensation was proper and for actual time worked.

In response to Ms. Gehrke's question about examination of the parking operation's own internal auditing process, Ms. Kirangi confirmed that the process was examined and noted that staffing issues hindered its effectiveness. She added that the internal controls in this case are incomplete.

Ms. Gehrke noted that there was nothing in Internal Audit's schedule of findings addressing the need for the parking operation to improve their own internal audit process. Ms. Kirangi responded that because she considers the self-monitoring of parking controls a management function, greater detail was not provided in the operational audit.

In response to Commissioner Holland, Ms. Kirangi stated that operating procedures are in place, but there is room for improvement in the review process, which is not complete.

Commissioner Albro asked whether Port-issued prepaid parking access cards were included in the operational audit. Ms. Kirangi responded that there is no charge associated with these cards, which are usually issued for employee use and added that the audit focused on revenue-generating processes. She explained that the process for obtaining parking access cards is tightly controlled.

In response to Commissioner Holland's question about expiration of the access cards, Mr. Yoshitani stated that expired cards are deactivated regardless of whether they are physically returned. He also commented that free parking access is a common issue at airports and stressed that there are very tight controls on the issuance of these cards.

Commissioner Albro asked for additional information from Internal Audit on the topic of parking access cards at the Airport, which Ms. Kirangi said could be provided at the next Audit Committee meeting, including review for appropriate card usage.

**Limited Operational Audit Mobile Devices/Smartphones:**

Mr. Fovargue reported on the limited operational audit of mobile devices and smartphones, and outlined audit objectives based on review of billings and usage data from 2010 as related to management's effectiveness in the following areas:

- Provision of sufficient, complete, and clear policy directives and governance on proper mobile device usage;
- Adequate usage monitoring to ensure use of Port smartphones for intended productivity benefits; and
- Implementation of adequate controls over usage levels and rate structures to ensure best economic advantage to the Port.

Mr. Fovargue commended the Information and Communications Technology (ICT) staff for prudently managing smartphone rate structures to obtain the greatest benefit to the Port.

Mr. Fovargue described the Internal Audit Department's finding that there were inadequate management controls and unclear policy regarding smartphone usage, particularly with respect to defining "incidental personal use."

Commissioner Albro commented on the declining trend in smartphone rates for the Port. He also stated that smartphones should be viewed as productivity tools and recommended articulating an enterprise-wide strategy for using the technology to drive productivity.

**Discussion and Recommendation for Audit Committee Improvements:**

Mr. Barnard presented results from a self-assessment questionnaire distributed to members of the Audit Committee, highlighting the following points:

- Responses varied by experience and perspective of the respondents;
- Although no one seemed dissatisfied with the work of the Committee, there was general agreement that there was a need for improvement;
- General knowledge of audit issues by the non-professional Committee members seems lacking;
- More resources seem to be needed for the Internal Audit Department, including provision for third-party contracted expertise;
- There are doubts as to whether the Commission is sufficiently engaged in audit matters and there may be a need to report to the Commission more often than annually on the Committee's work;
- It is unclear whether the Port's whistleblower protections are sufficient for the Audit Committee;
- A knowledge gap may exist due to financial matters being funneled directly to the Commission without Audit Committee participation, particularly with respect to issues of business risks to the Port; and
- A lack of accessibility to the risk assessment work of the Internal Audit Department by the Audit Committee.

Ms. Gehrke suggested not establishing separate whistleblower provisions for the Audit Committee separate from those of the Port at large and asked for non-identifying, statistical information on the use of the Port's whistleblower process. Mr. Yoshitani explained that the Port's whistleblower provisions do not include the Audit committee in its process, which would be a change in practice and added that whistleblower issues have to be addressed immediately and cannot wait to be handled by the Audit Committee. Ms. Kirangi described other avenues for collecting whistleblower information. Ms. Gehrke clarified her interest in ensuring that topics raised in the whistleblower process that affect the normal work of the Audit Committee would be communicated back to the Committee. Mr. Barnard confirmed that a presentation on the Port's whistleblower process would be provided at the July Committee meeting.

Mr. Yoshitani commented that since the actions of the Audit Committee are not final, the Committee might consider allowing the public member to vote on all issues. Mr. Barnard explained that the Port's legal counsel had advised against allowing the public member to vote because he or she would not be a Commissioner but would be serving on a Committee of the Commission. Both Commissioners Albro and Holland voiced support for revisiting the public member's non-voting status.

Based on the survey responses, Mr. Barnard offered the following recommendations:

- Provide opportunities for the public member to receive the same quarterly and annual briefings enjoyed by Commissioners;
- Retain an external party to assess the work of the Internal Audit Department in conjunction with the internal quality-control review of Internal Audit planned for 2012;

- That the performance metrics under development by Port staff be reviewed periodically by the Committee; and
- That the Committee agree on what kinds of auditing risk and business risk they want the Committee to focus on.

Additional recommendations were listed in the presentation materials.

Mr. Yoshitani cautioned the Committee against taking on too much responsibility. Commissioner Albro echoed this sentiment and stated that the highest value of the Committee is in ensuring the work of the Internal Audit Department is taking place reliably and in ensuring compliance by staff with the policy direction provided by the Port Commission. He requested implementation of quarterly reports of the Audit Committee to the Commission, beginning with a June briefing on the Committee's 2011 work to date.

### **ADJOURNMENT**

There being no further business, the special meeting was adjourned at 11:02 a.m.

Rob Holland  
Secretary

Minutes approved: July 12, 2011.