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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 July 11, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, July 11, 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; Bill Fovargue, Internal Auditor; Michele Fideler, Airport Facilities Manager; Darlene Robertson, Harbor Services Director; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Records Coordinator. Commissioner Holland was present after 9:15 a.m.

Call to Order:

The committee special meeting was called to order at 9:04 a.m. by Commissioner Albro.

Without objection, the Committee advanced to consideration of –

Comprehensive Operational Audit – Airport Office Building (AOB):

Ms. Kirangi introduced Ms. Ruth Riddle, of Resources Global Professionals, who contracted to perform the operational audit of the AOB. Ms. Riddle holds credentials as a CPA (certified public accountant), CIA (certified internal auditor), CICA (certified internal control auditor), and CFE (certified fraud examiner).

Ms. Kirangi stated that the operating revenue of the AOB Department comes primarily from conference center rental and is about \$150,000 with expenses that are close to \$1,000,000. She described the audit goals of ensuring the following:

- Revenue generated by the conference center is complete and accurate;
- Expenditures are valid;
- Contract compliance;
- Compliance with applicable laws; and
- Effective operations.

Ms. Kirangi explained that the audit covered the period from January 2008 to the end of 2010. She noted that there were no issues of significance.

Commissioner Albro commented that while operating revenue increased approximately 20 percent from 2009 to 2010, operating expenses increased about 50 percent and asked whether the Port is

obtaining full cost recovery from conference center rental. Ms. Kirangi stated that the original emphasis of the conference center was for internal use, and that use of the facility for community events is a recent development. Mr. Yoshitani added that the shortfall between operating revenue and expenses is covered by the rate base and should be considered a subsidized expense. He also stated that the operating maintenance expense is not limited to the conference center, but includes the entire office building. Mr. Yoshitani commented that staff is hopeful that the AOB conference center will eventually become a separate profit center.

In response to Commissioner Albro, Mr. Yoshitani confirmed that the variable expense of the conference center is not yet being recovered by its variable revenue. Commissioner Albro stressed the importance that the asset recover its own costs.

Ms. Fideler explained that the increase in maintenance expense of about \$350,000 between 2009 and 2010 was due to transfer of contract responsibility, not an increase in variable expenses.

Commissioner Holland was present after 9:15 a.m.

In response to Ms. Gehrke's question, Ms. Riddle confirmed that minor internal control weaknesses mentioned in the audit result summary were reported to management.

Concession and Lease Audit – Shilshole Bay Fuel Dock:

Mr. Fovargue described the Port's agreement with the Shilshole Bay Fuel Dock to provide fueling services to the public and marina customers. He reported that there were no findings associated with the audit.

Mr. Fovargue explained that there has been a decline in fuel docks in the area over the years and that there are many challenges to operating the facility, which he described as a service to marina tenants and the boating public. Monthly rent for the fuel dock is approximately \$3,000, and the Port collects a one-cent-per-gallon flowage fee on all fuel pumped at the fuel dock. Mr. Fovargue noted that compliance with environmental standards was reviewed in the audit, as was compliance with insurance and indemnity provisions of the lease and concession agreement.

Commissioner Albro asked whether the Port can justify reinvestment in the fueling facility when the lease becomes available for renewal. Ms. Robertson stated that the condition of the dock and fueling facility is under review and is being factored into further lease arrangements.

In response to Commissioner Albro, Ms. Robertson explained that there are very few alternatives to fueling at the Shilshole Bay fuel dock that do not involve entering the Lake Washington Ship Canal.

Commissioner Holland asked about the feasibility of investing in a fuel dock at the Bell Harbor Marina. Mr. Fovargue commented on the advantages of having a fuel dock at Shilshole Bay versus Bell Harbor.

Ms. Kirangi addressed a previous Committee question regarding Airport parking access cards. She stated that the number of parking access cards has been reduced from approximately 2,500 to about 1,700 since the last Airport parking audit and described the groups of personnel who

typically hold parking access cards. She commented that Internal Audit is satisfied that the issuance of the cards appears to be appropriate.

Mr. Yoshitani added that controlling dispersal of Airport parking access cards among VIPs was a priority early in his administration.

Commissioner Albro asked against what standard usage of Airport parking access cards were audited and what the policy is for determining who is issued a card. Ms. Kirangi responded that there is a list of card holders and a policy. She added that there are only 10 VIP cards, six of which are issued for Port Commissioner use, including one floater. Further discussion of usage policies for Airport parking access cards followed. Commissioner Albro requested that the June 7, 2011, Airport Parking Comprehensive Operational Audit report be amended to include information regarding Airport parking access card policies. He also asked that the standards against which the audit is being conducted be included in future audit reports in the summary or transmittal letter.

Ms. Riddle responded to a previous Committee question about destruction of Airport lost and found items. From the Lost and Found internal policy, she cited several items that are destroyed, including keys, medication, dangerous metals, memory cards, CDs with personal information, weapons, items considered to be dangerous or a health hazard, identification cards, birth certificates, travel paperwork, checks, checkbooks, credit cards, photos, and cell phones.

The Committee returned to consideration of –

Approval of Audit Committee Meeting Minutes of June 7, 2011:

On motion by Commissioner Holland, seconded by Commissioner Albro, the minutes of the Audit Committee Special Meeting of June 7, 2011, were approved.

Without objection, consideration of –

Review of Port of Seattle Whistleblower Policy

– was postponed to a subsequent Committee meeting.

Further Recommendations for Audit Committee Improvements:

Mr. Barnard presented the following recommendations arising from Committee discussions on June 7, 2011, and earlier related to improving the function of the Audit Committee:

- Begin regular distribution of financial information to the Committee's public member, including quarterly performance and project reports, Comprehensive Annual Financial Report (CAFR), and budget materials.
- Recommend to the Port Commission and Chief Executive Officer a stronger role in deciding the budget of the Port's auditing function, including specific recommendations for Internal Audit Department staffing resources and external audit contracts. This would be proposed to be effective immediately and would be confirmed by amendment of the Audit Committee charter.
- Conform the Audit Committee charter with standards of the Institute of Internal Auditors (IIA) and applicable governmental auditing standards.
- Obtain the services of an outside firm to assess the work of the Internal Audit Department, especially the risk assessment methodology used in preparing the annual risk assessment plan and subsequent work plan.

- Agree within the Audit Committee on the kinds of auditing and business risk the Committee wants itself and the Internal Audit Department to focus on and incorporate into the 2011-2013 Long Range Goals and Objectives Plan.
- Periodically review within the Audit Committee the performance metrics currently under development by the Port's organizational units in order to improve the Committee's ability to assess internal performance.

In response to Commissioner Albro, Mr. Barnard explained that the Audit Committee charter provides in general for sharing Port financial information with the Committee public member.

In preparation for a September outlining of a budget recommendation, Ms. Gehrke requested a briefing at the August Committee meeting on staff's progress developing 2012 budget recommendations for the Internal Audit Department. She asked for 2010 budget information for Internal Audit and 2011 actual expenditure data, with the concurrence of Commissioner Holland.

Ms. Kirangi described the process of obtaining peer review of the work of the Internal Audit Department, which is required to be conducted every three years in accordance with Government Auditing Standards. She stated that the initial review would not be a complete review, but would be followed in 2012 by a complete quality control review. In response to Ms. Gehrke, Ms. Kirangi confirmed that the initial external review would be a readiness assessment and the services would be procured through a request for proposals (RFP) process.

Ms. Gehrke requested the qualifications of the external auditor for the readiness assessment be provided to the Committee. In response to Mr. Barnard, Ms. Kirangi stated that the firm that conducts the readiness assessment will not necessarily be procured to conduct the complete quality control audit. In response to Commissioner Albro, Ms. Gehrke described the scope of a readiness assessment and the relationship of the readiness assessment to the Committee's goal of procuring an outside assessment of Internal Audit's risk assessment methodology. Commissioner Albro proposed that the Audit Committee approve the RFP for the readiness assessment planned to be procured in 2011.

Mr. Yoshitani stressed the importance that review of performance metrics be shared with the entire Commission. Commissioner Albro stated the view that the Audit Committee's role is to ensure that the policies of the Port Commission are being followed, not to establish policy or determine the adequacy of the Commission's policies.

In response to Commissioner Holland, Ms. Kirangi stated that management of the AOB conference center is conducted internally, while catering is procured from an external party. She also confirmed that the conference center is producing revenue that is expected to grow in the future.

Adjournment:

There being no further business, the special meeting was adjourned at 10:12 a.m.

Rob Holland
Secretary

Minutes approved: August 2, 2011.