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An audio recording 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 August 2, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, August 2, 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; Vickie Rawlins, Workplace Responsibility Officer; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Records Coordinator.

Call to Order:

The committee special meeting was called to order at 9:00 a.m. by Commissioner Albro.

Approval of Audit Committee Meeting Minutes of July 11, 2011:

On motion by Commissioner Holland, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of July 11, 2011, were approved.

Entrance Conference for Accountability Audit for fiscal year 2010:

Matt Lanier, Assistant State Auditor, addressed the Audit Committee and provided information about the role of the State Auditor's Office (SAO) and the legislation requiring auditing of the Port of Seattle. Mr. Lanier described the factors considered in the frequency of conducting audits of the Port and the scope of the annual audit, which he stated is an accountability audit for fiscal year 2010 that includes review of the following areas of compliance:

- Procurement and contracting;
- General disbursements;
- Payroll;
- Third-party management agreements;
- Small contractors and suppliers program;
- Fishermen's Terminal;
- Safeguarding of assets;
- Land sales;
- Cash receipting; and
- An SAO citizen hotline concern regarding a request for disclosure of public records.

Mr. Lanier stated the audit report is expected to be issued in November 2011. He described three reporting levels for audit recommendations, from most serious to least serious, including written findings, management letters, and exit items.

He commented that the SAO requests notification when the Port submits records for the audit to which confidentiality or privacy laws apply. He stated that the estimated cost of the audit is approximately \$83,500.

Carol Ehlinger, SAO Audit Manager, explained billing-rate, audit-risk, and associated budget increases affecting the cost of the current accountability audit. Mr. Caluza explained that the unanticipated increases in the cost of the audit would have to be absorbed as an unprogrammed expense within the Accounting Department budget.

Mr. Lanier introduced Ryan Donnell from the SAO, who will be assisting with the audit.

In response to Ms. Gehrke, Mr. Lanier commented that the findings to be followed up at Fishermen's Terminal deal with issues of internal controls and cash handling. In response to Commissioner Holland, Mr. Lanier commented further on intended review of how assets are safeguarded and analysis of management of the roster of small contractors and suppliers. Mr. Caluza described some of the areas of concern at Fishermen's Terminal and steps already taken to address these concerns, as noted in the Port's July 1, 2011, SAO performance audit response.

In response to Commissioner Albro, Mr. Lanier explained how the SAO determines the frequency with which it conducts accountability audits of public entities within the mandated three-year cycle based on the size of operation, magnitude of risks, and other factors. Ms. Ehlinger commented that the SAO also conducts annual audits of the City of Seattle, King County, and the Seattle School District.

Mr. Lanier described the standards to which the SAO conducts its accountability audit, including State law and Port policy. He added that the audit is not a performance audit and is not intended to evaluate best practices or industry standards but to focus on implementation of adequate controls. In response to Commissioner Albro, Mr. Lanier explained that the SAO will expect the Audit Committee to serve as the primary channel for open discussion of audit issues and receipt of audit findings.

Discussion ensued surrounding the requirement that the Audit Committee, as part of an elected body, engage with auditors in public session, and the implications for candid discussion that may result when the related subject matter is subject to confidentiality considerations or exemption from public discussion, such as under the executive session provisions of RCW 42.30.110. Mr. Yoshitani commented that a concern of the Port Commission and Port staff is that preliminary audit findings aired in public session but later discounted prior to the final audit report nevertheless can incriminate the agency. He requested that consideration be given by the SAO to make clear that interim or preliminary findings are not final or conclusive.

In response to Ms. Gehrke, Ms. Ehlinger commented on the role of the Port's internal audit function in mitigating the risk associated with the SAO's Port audit planning and review of applicable work of Internal Audit by the SAO. In response to Commissioner Albro, Ms. Ehlinger confirmed that weaknesses in internal audit processes would be reported if identified.

Review of Port of Seattle “Whistleblower” Policy:

Ms. Rawlins presented an overview of the Port of Seattle’s whistleblower policy and described her role in ensuring appropriate follow-up to reports of compliance or ethics violations, including whistleblower complaints. She stated that the Port’s whistleblower policy is contained within Executive Policy 13, which is based on RCW 42.41 and protects Port employees from retaliation when reporting or cooperating with investigation of improper governmental action.

Ms. Rawlins described the definition of an improper governmental action and listed the kinds of complaints covered by the policy. She stated that employees reporting improper governmental action to the Audit Committee or to an outside agency would be protected by the Port’s policy. She added that the Code of Conduct provides protection for employees reporting violations of the Code of Conduct not otherwise covered under Executive Policy 13 and extends retaliation protection to Port consultants.

In response to Ms. Gehrke, Ms. Rawlins reported that all complaints and responses are tracked and that reports of appropriate detail are available. She outlined some of the broad categories of complaints received and noted that complaints suggesting issues with internal controls are noted and referred to appropriate managers. Ms. Kirangi responded to Ms. Gehrke that applicable internal control information reported by the Workplace Responsibility office would be considered in internal audit planning.

Ms. Rawlins added that most complaints submitted internally do not go through a hotline process and clarified that the ability to provide automated complaint reporting is fairly new.

In response to Commissioner Albro’s question about involvement of the Audit Committee in whistleblower complaints, Mr. Yoshitani commented that the Commission has properly delegated disciplinary matters to the Chief Executive Officer and that the office of Workplace Responsibility, in collaboration with the General Counsel, is able to evaluate and prioritize the complaints they receive. Ms. Rawlins responded that the best management practice in the public and private sectors is to ensure the Chief Executive Officer or Ethics Officer has access to and regularly reports to the organization’s Audit Committee, rather than the committee’s being directly involved in the whistleblower process.

Discussion ensued on issues surrounding the appropriateness of reporting whistleblower activity to the Audit Committee, the relevance of complaints to the work of the Committee, and interest in further discussion of how the whistleblower process should be reflected in the Committee’s charter.

Comprehensive Operational Audit: [Seaport Container Management](#):

Mr. Hutchinson reported on the container management operations reviewed in the audit, particularly related to Terminals 5, 18, 30, 46, and 115, which collectively incur \$3 to \$5 million in annual operating expenses and generate \$57 to \$65 million in annual revenue.

He stated that the audit objectives included ensuring terminal and crane rent lease agreements are effectively managed and lease and billing information is effectively monitored in the PROPworks system. The period reviewed was January 1, 2010, to December 31, 2010, and the audit resulted in no findings of significance.

In response to Commissioner Albro, Mr. Hutchinson reported that the drop in operating expenses from 2009 to 2010 was due to project cancellations and delays. Mr. Yoshitani added that environmental cleanup issues at Terminal 30 account for the higher expense numbers in 2008 and 2009.

Concession and Lease Audit: [Citylce Cold Storage, LLC:](#)

Ms. Kirangi provided an overview of the audit and explained the terms requiring a three-percent concession fee. She stated that the audit produced no exceptions and that the audit confirmed that concession fees were not paid when the fee amount was less than the guaranteed minimum rent attributable to the subject building, as stipulated in the lease and concession agreement.

Update on 2010 Internal Audit Department [Work Plan:](#)

Ms. Kirangi presented an organizational diagram for the Internal Audit Department showing current staff positions and audit-type focus.

In response to Ms. Gehrke, Ms. Kirangi confirmed that Internal Audit consists of nine full-time equivalent positions and a part-time intern.

The presentation materials described the status of audits in the 2011 work plan and the status of remaining audit resources for 2011.

In response to Commissioner Albro, Ms. Kirangi explained that resources are allocated to audits based on various factors unique to audit circumstances. She stated that two or three audits are planned to be delayed into 2012 based on a shortage of 581 work hours compared to the work hours planned for 2011.

Commissioner Albro noted that there are four Audit Committee meetings remaining in 2011 and that in the past eight meetings 14 completed audits have been exited. Based on carry-forward of three audits into 2012, he asked whether the remaining 19 audits would be presented in the last four meetings of 2011. Ms. Kirangi stated that the audits conducted later in the year tend to be less complicated lease and concession audits. Mr. Hutchinson stated that out of 14 remaining audits, six or seven are lease and concession audits, which tend to be completed more quickly than comprehensive or limited operational audits. He added that "completion" of the audit does not include the exiting of the audit and report to the Committee, which generally takes an additional month following completion of the audit work, and noted that in the past audits have been reported in January, February, or March of the year following the year in which the audit was scheduled.

Commissioner Albro opined that seven audits completed in 2011 and exited in 2012 was a reasonable number, and noted that would leave 15 audits to be exited in the remaining four meetings of 2011 and expressed concern over the amount of work that represents for the Committee.

In response to Ms. Gehrke, Ms. Kirangi estimated one or two of the seven 2010 audits exited in 2011 were not completed in 2010. Ms. Gehrke suggested distinguishing between audits for which the work has been done, but which are still pending management response or exit report, and those that are still in review by Internal Audit.

Discussion ensued on the issues and challenges involved in trying to complete numerous audits at the end of the year, the consistency of the practice of carrying forward audits to the following year, and clarification of what constitutes "completion" versus "reporting" of audits.

Commissioner Albro commented on the reduction in the Committee's work load from 2010 to 2011, despite Internal Audit staffing and budget increases. He requested information at the September Committee meeting on which audits would be exited in 2011, which would be carried forward to 2012, and the reasons for carrying them forward.

Action Items for Audit Committee Improvements:

Mr. Barnard presented three recommendations for improvements to the Audit Committee, including the following:

- An outside firm would assess the work of the Internal Audit Department, and the Audit Committee would participate in that effort by including the expert member, Ms. Gehrke, in developing the requirements and scoring criteria for a request for proposals (RFP) for selection of the firm;
- The Audit Committee would recommend reorganization of the Internal Audit Department to transfer responsibility for concession and lease audits to the applicable management sections while maintaining review of control systems in order to allow Internal Audit to focus on operational audits and others that employ performance metrics; and
- Bring the Audit Committee Charter into compliance with Institute of Internal Auditors (IIA) standards and applicable governmental auditing standards as appropriate to the nature of the organization and as determined by the Committee.

In response to Commissioner Albro, Mr. Barnard confirmed that Audit Committee improvements would require Commission approval. Discussion ensued on the proposals, including the merits of peer review of Internal Audit to accomplish outside independent review, compensation for expenses by a peer group, whether an RFP would be required, desire for a quality independent review, involvement of the Central Procurement Office, and scope considerations.

Mr. Yoshitani commented on the importance of Internal Audit being independent and the potential conflict if division staff is involved in the internal audit function. He pointed out that concessions and lease audits generate a significant amount of revenue to offset the expense of Internal Audit, and noted the benefit of the expertise provided by internal auditors. Commissioner Albro asked that further discussion follow at the September Committee meeting on the second recommendation.

Adjournment:

There being no further business, the special meeting was adjourned at 11:01 a.m.

Rob Holland
Secretary

Minutes approved: September 7, 2011.