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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 SEPTEMBER 7, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Wednesday, September 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; Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Rudy Caluza, Accounting and Financial Reporting Director; Jack Hutchinson, Internal Audit Manager; Lindsey Pulsifer, Marine Maintenance General Manager; James Schone, Aviation Business Development and Management Director; Sue Hansen Smith, Airport Customer Service Manager; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Records Coordinator.

Commissioner Holland was absent after 4:49 p.m.

**Call to Order:**

The committee special meeting was called to order at 3:40 p.m. by Commissioner Albro.

**Approval of Audit Committee Meeting Minutes of August 2, 2011:**

**On motion by Commissioner Holland, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of August 2, 2011, were approved.**

**Third-Party Operational Audit – [Airport Club International Lounge:](#)**

Ms. Kirangi presented an Internal Audit report of a third-party operational audit of the Club International Lounge in the South Satellite at the Seattle-Tacoma International Airport. She noted that the lounge serves two airlines, Asiana and Condor, and the audit was requested by management to determine compliance with the management agreement and adequate monitoring of operating expenses.

The audit report indicated review of information related to the period from March 5, 2010, to the present and concluded that adequate controls exist to ensure effective management of the lounge in compliance with the third-party agreement. However, Ms. Kirangi noted that payroll reimbursement was based on budget estimates rather than actual expenses incurred, with no performance of a year-end reconciliation.

In response to Commissioner Albro, Ms. Hansen Smith noted that prior to March 2010, Club International was operated by the Port of Seattle, with airline use leased based on a per-use payment. She noted that provision of a lounge is important to international carriers.

In response to Commissioner Albro, Mr. Schone explained the calculation of the club's operating expenses and management fee, which are separate. Mr. Hutchinson noted that the management fee is independent of operating expenses, which are reimbursable.

**Limited Operational Audit – Port of Seattle Fleet Maintenance – Aviation and Marine:**

Performance Auditor Tyler Winchell reported on a limited operational audit of Port of Seattle Fleet Maintenance, noting the variety of vehicles in the fleet, audit period from January 1, 2008, through January 1, 2010, total annual expenses for 2008-2010, and the audit objectives to ensure the following:

- Compliance with internal Executive Policy 17 (EX-17);
- Reasonable and timely corrective maintenance;
- Availability and use of performance measures to achieve management goals; and
- Availability and usefulness of benchmarks to improve fleet operations.

Mr. Winchell commented on two findings, first that Maximo software is not used at optimal capacity particularly with respect to asset identification, asset classification, and staff use of the software to implement monitoring requirements, and second that some requirements of Policy EX-17 are not being met in terms of utilization requirements and sustainability and regular reporting.

In response to Ms. Gehrke, Mr. Yoshitani stated that the methodical assessment process that determines vehicle replacement and retirement was not part of the audit.

Ms. Pulsifer pointed out that the audit examined compliance with a recently developed policy and commented on the challenges involved in transferring to use of new software from legacy systems.

Ms. Gehrke asked about the narrow focus of the audit scope on the EX-17 policy. Commissioner Albro characterized the audit as a progress report on implementation of the Fleet Maintenance Policy EX-17 and use of the Maximo software. He noted that a number of factors, such as insurance and fuel costs, were not included in total fleet expenses. He requested that the audit scope of assets reviewed for 2012 be broader in order to meaningfully assess the policies and guidelines used to manage the fleet as an asset. Mr. Yoshitani described such a review as a process audit.

**Concession and Lease Audit – Bill and Nick:**

Mr. Hutchinson presented a concession and lease audit of concessionaire Bill and Nick Inc., which has operated a restaurant at Fishermen's Terminal since 1987 and contributes approximately \$45,000-\$50,000 annually in concessions revenue to the Port. He noted the audit objectives to ensure the reported concession was complete and properly calculated and to ensure compliance with provisions of the lease and concession agreement. He described the audit date range from January 1, 2009, to December 31, 2010, and concluded that there were no instances of noncompliance or inaccurate calculation of rent or concessions payments.

**Concession and Lease Audit – Enterprise Rent-A-Car:**

Mr. Hutchinson reported on the concession and lease audit of Enterprise Rent-A-Car, noting the audit objectives to ensure the reported concession was complete, properly calculated, and remitted timely; compliance with provisions of the amended lease and concession agreement; and proper collection and timely remission of customer facility charges to the Port. He stated that the audit date range covered the period from November 1, 2007, through October 31, 2010, and there were no significant findings.

In response to Commissioner Albro, Mr. Hutchinson explained that the audit's disclosure of minor instances of gross revenue deductions that reduced concessions fees slightly were due to a system migration that occurred during the audited period and were considered a minor discrepancy.

**2011 Work Plan Status Update and Initial 2012 Work Plan Discussion:**

Ms. Kirangi presented an analysis of the Internal Audit Department work progress listed by audit name and reported that there are approximately two audits to carry over to 2012. Discussion followed on the ability to identify the audit names on the list and correlate them to audit reports received to date and the nomenclature for "ongoing" audits.

In response to Commissioner Albro, Mr. Hutchinson estimated that there would be four audits exited in October, four in November, and five in December. He noted that most of these are lease and concession audits that have fewer variables affecting the amount of time involved to exit the audits.

Ms. Kirangi reported that the Internal Audit Department is not proposing budget increases in 2012 and presented a calculation of remaining Internal Audit resources in 2011. She indicated the need for \$10,000 to \$50,000 for peer review of Internal Audit function and approximately \$100,000 for an initial Information and Communications Technology (ICT) Department risk assessment and recommendations for areas of audit focus.

*Commissioner Holland was absent after 4:49 p.m.*

Discussion followed on the merits of using the same firm to perform risk assessment and a performance audit of the ICT Department, the desire not to duplicate effort needlessly, and the certainty of an eventual ICT audit by the State Auditor's Office.

Mr. Thomas described the role of the ICT Governance Board and outlined the steps involved in determining the scope for an ICT Department risk assessment, which is expected to be bid in 2012. Ms. Kirangi commented on the steps involved in setting an initial 2012 work plan for the Internal Audit Department, which Commissioner Albro stated should be approved in December 2011. Commissioner Albro requested that Port Commissioners be consulted directly in the development of the work plan.

**2012 Quality Control and Assurance Review Status Update:**

Ms. Kirangi presented options for conducting a peer review of the function of the Internal Audit Department. Commissioner Albro requested inclusion at the October committee meeting of a checklist describing the scope of a quality control review of Internal Audit. Commissioner Albro further requested a briefing at the October committee meeting on the 2012 Internal Audit budget.

**Discussion on Internal Audit Department Lease and Concession Audits:**

The Audit Committee engaged in a discussion of lease and concession audits conducted by the Internal Audit Department and considered the following factors surrounding audit of lease and concessions agreements:

- Difficulty involved in disambiguating management and auditor roles;
- Ability of the Internal Audit Department to embrace whatever auditing model is necessary to serve management needs;
- Importance for internal or external auditors to exercise independence;
- Varying strength of managers with respect to scrutiny of financial records versus the expertise of an auditor;
- Potential for contract management through concessions audits to be too infrequent to be effective;
- Role of the auditor as an interpreter of the contract requirements;
- Relative costs and benefits of pursuing discrepancies;
- Audit-driven compliance by concessionaires and the history of previous concessions audits;
- Centralized versus decentralized models of the audit function in the enterprise;
- Amount of time devoted to lease and concession audits versus assessment of other risks;
- Differentiation between the scope of work of the Internal Audit Department and the Audit Committee;
- Previous Port models of contracting lease and concession audits to outside firms; and
- The operational nature of lease and concession audits as opposed to a risk-based approach.

Mr. Yoshitani summarized the committee's interests in terms of structuring the Audit Committee in order to allow the committee to provide input into more substantive issues and provide for delegation of functions that are more operational in nature.

Commissioner Albro requested further discussion on lease and concession audits at the October committee meeting.

**Adjournment:**

There being no further business, the special meeting was adjourned at 5:52 p.m.

Rob Holland

Minutes approved: November 1, 2011.