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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 NOVEMBER 1, 2011**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, November 1, 2011, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members Commissioner Albro, Commissioner Holland, Christina Gehrke, and Alternate Member Commissioner Tarleton were present, as well as Tay Yoshitani, Chief Executive Officer; Vickie Rawlins, Workplace Responsibility Officer, Susan L. Coskey, Jd, MBA, Principal, Bright Spring Consulting, Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Laurie Tish, Moss Adams; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 8:31 a.m. by Commissioner Albro.

Commissioner Albro introduced Commissioner Tarleton as an official alternate member for the Audit Committee to ensure a quorum.

Commission Practices Review:

Ms. Rawlins noted that concerns were brought forth by a former employee to the Legal department regarding a Commissioner's credit card use. The Legal department ensured that disallowed charges were repaid and the Port credit card was no longer in use. At that time, the Commission directed the Legal department to oversee an outside review of alleged misuse and credit card use by all Commissioners, which had been conducted by Ms. Coskey. Ms. Rawlins commented that under normal circumstances, concerns regarding Commission ethics or compliance would be forwarded to the Ethics Board; however, the Ethics Board is currently inoperative. She stated the purpose of the review was to examine the identified concerns for the purpose of collecting all relevant facts and identifying appropriate standards to the extent necessary to enable the Commission to assess the credibility and seriousness of the concerns and determine appropriate next steps. She noted that the review is not an audit and the final report is not completed. The scope of the review included Port credit card use by Commissioners and potential ethics issues regarding conflicts of interest and misuse of Port offices and Port resources for non-Port purposes.

Commissioner Albro noted the benefit of Ms. Coskey's review in informing the Commission as they review a Commission's Ethics policy and consider reinstating the Ethics Board. Ms. Coskey

clarified that her use of the term "Commission staff" refers to anyone who supports the Commission.

Ms. Coskey stated that there is a state constitutional provision against lending public credit to private individuals for private benefit, as well as Port policies that address appropriate use of credit cards. She noted that the Port policy is unclear as to what extent the policies apply to Commissioners, although she stated that Commissioners seem to have accepted that Port accounting policies apply to them as well as to Port staff. Ms. Coskey noted that in the review there was at least one instance in which every Commissioner had used a credit card for a personal or disallowed expense, but only two Commissioners had expenses that stood out. One had excessive personal expenses, particularly early in the Commissioner's tenure, that were not always promptly repaid. This Commissioner had asserted not knowing the policy; however, Ms. Coskey stated there were opportunities for the policy to be made clear. Although the Port policies regarding credit card use were available to the Commissioners, she reported the review demonstrates a need for a more effective method for communicating that information to the Commission. The second Commissioner that stood out commonly charged personal expenses related to other Port of Seattle expenses. These personal expenses were generally promptly repaid.

The second set of issues relate to the improper use of Port resources. She stated there was an inappropriate cell phone photograph found on a Port cell phone. Ms. Coskey stated there is no policy to address consequences for a Commissioner who violates policy. She also noted there was a cancellation fee incurred due to a Commissioner being unable to attend an event already paid for by the Port. She stated there is no clear policy to direct whether the Port should bear the cost or if the cost should be repaid by the Commissioner.

The third area of concern relates to the use of Port resources for non-Port activities and conflict of interest. This area of concern is covered by the Commission Resolution No. 3583. Ms. Coskey noted that a Commissioner asked Port staff to cover a class the Commissioner was teaching at a local community college. She described an instance in which a Commissioner utilized Commission staff to help make travel arrangements to support unpaid board work outside of Port Commission business. Ms. Coskey stated there is no mechanism to evaluate whether this was an inappropriate use of Port resources nor is there an advisory council for the Commissioner to seek an opinion. Ms. Coskey noted that the Ethics Board referenced in Resolution No. 3583 is an investigative board and not an advisory council.

Current practice demonstrates the need for an advisory council. Ms. Coskey noted there is no standard practice for when an opinion should be sought and who should give the opinion. She stated that because the General Counsel is an employee of the Commission, offering a legal opinion on something a Commissioner wants to do puts the employee in a difficult situation.

Based on the review work completed to date, Ms. Coskey observed there is a need for the following:

- Clarification as to what Port policies and procedures apply to Commissioners;
- A method to make clear the expectations of behavior and how Commissioners will be held accountable;
- Clarifications of the roles within the Commission Office and how Commission staff report to the Commission;
- Procedures for staff to follow when concerned about Commission behavior; and

- A mechanism to address ethics concerns.

Ms. Coskey stated that all Commissioners agreed there needs to be some kind of mechanism in place to address ethics concerns. But she clarified that just having an external mechanism is not enough, and that there are internal structural and operational deficiencies, in terms of policies and processes that need to be addressed. Simply identifying them as ethics issues is not going to be enough. It is one thing to want an external entity to assess ethics issues as they come up, but that doesn't internalize the responsibility. Internal structures and mechanisms in place are needed, and commitment to understand and engage consistently with them in a way that minimizes the ethics issue that come up. Ms. Coskey opined that if the Commission had both internal and external structures that establish accountability and expectations they could deal with problems before they become ethics issues.

Ms. Coskey replied to Commissioner Albro's question about next steps that she is waiting for further instruction from the Commission on how to proceed. In response to Commissioner Tarleton's question about best practices, Ms. Coskey noted that in her experience the best practice for an elected body is to set clear expectations and guidelines. Those expectations and guidelines should be created in the context of the Port's goals. Ms. Coskey cautioned against using best practices of other organizations and instead focusing on what is most appropriate for the Port.

Ms. Coskey replied to Commissioner Tarleton that it is important for the Commission to decide which outstanding issues need further resolution and which issues should be considered learning experiences.

Approval of Audit Committee Meeting Minutes of September 7, 2011 and October 4, 2011:
On motion by Commissioner Holland, seconded by Commissioner Albro, the minutes of the Audit Committee special meetings of September 7, 2011, and October 4, 2011, were approved.

Comprehensive Operational Audit – Central Processing System: Asset Management:

Mr. Hutchinson submitted comprehensive operational audit report for the central processing system: asset management, covering the period of January 1, 2010, to July 31, 2011. The purpose of the audit was to assess controls and determine the following:

- Newly created assets are entered in the asset management system timely, efficiently and completely;
- Asset retirements are recorded in asset management in a timely, efficient, and complete manner;
- The capital asset list used for the physical inventory in all divisions is accurate and complete; and
- Capital Services new asset creation and retirement processes are effective and complete.

Mr. Hutchinson noted that the audit found no areas of concern. In response to Ms. Gehrke, Mr. Hutchinson clarified that Maximo is not used for items that are part of the Central Processing Asset Management system that was the focus of the audit.

Discussion on Lease and Concession Audits: Briefing on Ports Internal Audit survey:

Ms. Kirangi noted that the Internal Audit department sent a survey to other internal audit departments that audit port and airport authorities that asked two questions:

- Does the Internal Audit group audit both the traditional organization internal controls and also lease and concession contract compliance?
- Does your organization have two separate and distinct audit groups: one for the traditional internal controls and another for lease and concession audits.

There were 41 responses, of which 37 have a similar structure to that of the Port's Internal Audit department.

2012 Proposed Internal Audit Budget:

Ms. Kirangi presented the 2012 Internal Audit budget to the Committee noting there are two one-time items in the budget that include:

- Information Technology performance review and risk assessment; and
- Internal Audit department peer review.

In response to Ms. Gehrke, Ms. Kirangi clarified that the outside services shown in the budget are for the ethics and compliance hotline. Ms. Kirangi replied to Ms. Gehrke's question regarding staff size that the number of employees in the Internal Audit department at the Port of Seattle is about average when compared to other internal audit groups at other port districts.

On motion by Commissioner Holland, seconded by Commissioner Albro the Internal Audit 2012 budget proposal was referred to the full Commission for approval. Commissioner Tarleton abstained.

In response to Mr. Barnard, Commissioner Albro clarified that the motion is intended to demonstrate to the Commission that the Committee perceives the Internal Audit budget to be sufficient for the Internal Audit department to accomplish the work for 2012. The Internal Audit budget goes with the recommendation of the Audit Committee.

2011 Work Plan Update

Ms. Kirangi stated that at the first meeting in December staff will provide a ranking of the risk areas and propose items for inclusion in the 2012 Internal Audit department work plan. The work plan will be brought to the Audit Committee for approval in January. Ms. Gehrke asked if credit card use by Port staff should be considered high risk and audited due to the findings of Commissioner credit card use.

Ms. Kirangi noted that there are three audits remaining in the 2011 work plan that have not been started. Two of the three will probably not start until 2012. The Internal Audit department is working to fill a senior auditor position that has been vacant since August, which accounts for the two un-started audits.

Briefing on Peer Review: Association of Local Government Auditors-Recommendation and Scope of Work:

Ms. Kirangi stated that the Internal Audit Department was established in 2008. The Generally Accepted Government Auditing Standards (GAGAS) require that audit organizations receive an external peer review once every three years. The Association of Local Government Auditors (ALGA) has a program to assist local government agencies to meet the peer review requirement. The program was started in 1991 and is recognized by the United States Government Accountability Office (GAO), which issues GAGAS.

Commissioner Tarleton suggested adding a section to the Audit Committee charter clarifying the Internal Audit department peer review process, including how often the peer review should occur, what the expectations are for a peer review, and clearly defining the roles of the Committee and the Commission.

Ms. Gehrke noted certain elements of a Red Book audit might be helpful in a peer review, including the following:

- Looking at the charter of the audit committee;
- Looking at reporting and communication to the audit committee;
- Management of the audit department; and
- Looking at the risk-based audit planning and the process of how audits are selected.

Ms. Kirangi stated that of the 300 audits that ALGA has performed only five have been Red Book audits. Ms. Kirangi noted the difference between the International Standards for the Professional Practice of Internal Auditing (the Red Book) by the Institute of Internal Auditors and the GOA's Government Auditing Standards (Yellow Book). The Port is a government agency; therefore, the Port's Internal Audit department primarily uses the Yellow Book; however, Ms. Kirangi stated that parts of the Red Book are used as appropriate. For example the annual work plan is not covered in the Yellow Book, but is in the Red Book. For the peer review it is acceptable to choose items from each book to review.

Commissioner Albro requested inclusion in the peer review scope of work of appropriate elements from the Red Book with the expectation to approve the scope of work at the next Committee meeting.

Lease and Concession Audits

At the request of Commissioner Albro, Mr. Hutchinson submitted written audit reports for the lease and concession audits listed below.

Ex Officio LLC:

There were no findings related to this lease and concession audit, which covered the period June 1, 2008, through May 31, 2011, and included the following objectives:

- Reported concession was complete, properly calculated, and remitted timely to the Port.
- The lessee complied with significant provisions of the Lease and Concession Agreement.

Ivar's, Inc.:

There were no findings related to this lease and concession audit, which covered the period of June 1, 2007, through May 31, 2010, and included the following objectives:

- The revenue reported was reasonable and complete.
- Rent payments were received in a timely manner.
- The lessee complied with provisions of the lease and concession agreement.

LaTrelle's Express, Inc.:

There were no findings related to this lease and concession audit, which covered the period of June 1, 2007, through May 31, 2010, and included the following objectives:

- The concession revenue was complete, properly calculated and remitted timely to the Port.
- The lessee complied with other significant provisions of the lease and concession agreement.

Food System Unlimited, Inc.:

There were no findings related to this lease and concession audit, which period of June 1, 2008, through May 31, 2011, and included the following objectives:

- The reported concession was complete, properly calculated and remitted timely to the Port.
- The lessee complied with provisions of the Lease and Concession Agreement, as amended.

Commissioner Tarleton suggested consideration of Audit Committee charter revisions to accommodate receipt of multiple clean audit reports. Commissioner Albro concurred.

Entrance Conference: 2011 Engagement Service Plan:

Ms. Tish stated that Moss Adams is currently in the first phase of the audit, planning and risk assessment. The risk assessment involves three areas:

- Inherent risk, which is based on the nature of the account or transaction in review, and exists whether or not there is an audit;
- Control risk, which is risk that the system may not catch a misstatement; and
- Detection risk is that the auditor may not detect a misstatement.

Ms. Tish noted that the scope and approach of the audit are based on the risk assessment.

Commissioner Albro noted that the purpose of the audit is to represent the fairness of the presentation of financial information to the public and bond holders, therefore financial matters are the focus.

In response to Commissioner Tarleton, Ms. Tish replied that volume has an impact, but it depends on the type of transaction. High volume transactions tend to have better controls in place.

Ms. Tish stated the delivery date for the Moss Adams findings is on or before April 30, 2012. In response to Commissioner Albro, Ms. Tish stated the exit conference would be in May.

Ms. Gehrke asked what the materiality threshold was for the previous audit. Ms. Tish responded that the materiality threshold is not disclosed; however, she stated the critical component is revenue. Ms. Tish replied to Ms. Gehrke that in the auditing literature there is a range that is generally allowed that can be applied to revenue, and due to the Port's typically strong structure of internal controls and audit lack of findings of material non-compliance or material weaknesses in prior years, the auditors would be using the higher end of the range.

Note on Audit Committee meeting Protocols:

Mr. Barnard stated that in order to ensure a quorum and maintain the schedule of Audit Committee meeting Commissioner Tarleton has been approved by Commission President Bryant as an alternate member to the Audit Committee.

Adjournment:

There being no further business, the special meeting was adjourned at 10:53 a.m.

Tom Albro

Chair

Minutes approved: December 6, 2011