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An audio recording of the meeting proceedings and meeting materials are available on the Port of Seattle web site - www.portseattle.org.

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING MAY 15, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, May 15, 2012, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Albro, Commissioner Bryant, and Christina Gehrke. Also present were Kurt Becket, Chief of Staff; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Laurie Tish, Moss Adams; Rudy Caluza, Director of Accounting & Procurement; Ralph Graves, Managing Director, Capital Development; Lisa Lam, Financial Reporting & Controls Manager; Tyler Winchell, Performance Auditor; Ruth Riddle, Senior Internal Auditor; Jeff Hollingsworth, Senior Manager Risk Management; Mary Ann Lobdell, Manager, Marine Maintenance Compliance & Fleet; Benny Austin, Manager Aviation Maintenance; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 9:05 a.m. by Commissioner Albro.

Approval of Audit Committee Meeting Minutes of March 6, 2012:

On motion by Commissioner Bryant, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of March 6, 2012, were approved.

Exit Conference: [2011 Comprehensive Annual Financial Review \(CAFR\):](#)

Ms. Tish noted there are several reports issued, which includes the CAFR. The CAFR has two units, the enterprise fund and the warehousemen's pension trust fund. The warehousemen's pension trust fund is treated as a separate audit. Ms. Tish stated that an unqualified opinion was entered for the report on financial statements and the audit report on net revenues available for revenue bond debt service. She noted that other reports issued included the audit and report on the schedule of passenger facility charges, receipts and expenditures and related internal controls, as well as the audit and report on federal financial assistance programs and related internal controls and compliance in accordance with Federal Office of Management and Budget Circular A-133.

Ms. Tish stated that there were no findings of material weakness or significant deficiencies with internal controls. She noted that, as the single auditor, Moss Adams is required to compile and post any findings by other auditors during the year, including the State Auditor. She reported that the State Auditor's Office

finding regarding Aviation High School was posted in the report. She stated that the State Auditor's finding is not considered a finding of noncompliance against the grants as no grant money is part of the funding given to Aviation High School by the Port of Seattle.

Ms. Tish reported observations for process improvements. The first observation she noted concerns the timely closing of construction projects. She stated that the closing of construction projects has an undue reliance on the secondary back-up controls. She explained that the primary control is for the project manager to report to the Accounting and Finance department that the asset has been placed in service. She reported that over \$19 million in assets were caught by the back-up system. In response to Commissioner Albro, Mr. Caluza noted there was about \$100 million in projects closed out in 2011. Mr. Graves stated there is an issue surrounding recording when an asset is placed in service for proper depreciation. He noted the asset is supposed to be reported to accounting when the Port takes beneficial occupancy, which is often a different time from when the project is financially closed out. In response to Commissioner Albro, Ms. Tish stated that non-depreciation projects are expensed and the worst case is that they would be expensed the following year.

The second observation Ms. Tish reported was that there were minor discrepancies in federal grant reporting for the law enforcement officer reimbursement agreement program, but there was no finding of non-compliance. She noted some extraneous parts of the federal report that is filed did not match the supporting documents, but was not the dollars spent. She reported it was a small dollars and not a finding, but it has been discussed with the Police Department.

Ms. Tish made one final observation regarding administrator access for information technology financial systems. She noted that the secondary controls are adequate, but preventative measures could be taken to proactively monitor the actions taken by administrators.

Ms. Tish noted the audit plan was followed as presented at the entrance conference, with the Audit Committee on November 1, 2011.

In response to Commissioner Albro, Ms. Tish responded that net assets are not only cash. Ms. Lam responded to Commissioner Bryant that Airport earned income is tracked closely through the Airport Development Fund and cannot be spent in the Seaport or Real Estate. Ms. Lam noted that for financial and accounting purposes it is included in unrestricted revenue. Commissioner Albro stated that he would like to see the same chart presented as schedule 1 on page 62 of the CAFR broken out between Airport and non-Airport assets. He noted that is important to know what money is available when making policy decisions. Mr. Caluza noted that staff is working with Mr. Barnard under the direction of Dan Thomas, Chief Financial Officer and Administrator, to provide more visibility on the balance sheets. Mr. Caluza will provide a briefing on balance sheet visibility at the next Audit Committee meeting.

Ms. Tish stated that Port staff and management were cooperative. She also noted that Moss Adams teams with a small business firm that gets about 10 percent of the audit hours.

[Lease and Concession Audit – Bell Street Parking Garage and Pier 66 Parking Lot:](#)

Mr. Winchell noted that the audit covered two lease agreements between the Port and Republic Parking for the Pier 66 Parking Lot and the Bell Street Garage. The audit covers the 2010-2011 lease terms. He

reported that there was a finding of incomplete reporting of the Bell Street Garage concession revenues as follows:

- A non-disclosure of a small revenue stream, a \$2 prepaid parking service fee, which resulted in approximately \$4400 of unreported concession income during the audit period.
- The normal concession review also showed a small discrepancy of \$4100.

Mr. Winchell noted the recommendation to management by Internal Audit is to recover the Port's portion of the undisclosed prepaid parking service fee for noncompliance with late fees and interest, and work with Republic Parking's management to ensure parking and related fees are fully documented and accounted for in the monthly reports in the future.

Comprehensive Operational Audit – Risk Management Department:

Ms. Riddle presented the report on the Comprehensive Operational Audit of the Risk Management Department and noted the following:

- The audit covered the period of January 1, 2010, through December 2011;
- The audit covered policy and procedures, performance measures, accounting of receipts; and
- There were no audit findings.

Ms. Riddle made a correction to page 4 of the report: the first paragraph should state that less than 5 percent become litigated claims. Commissioner Albro asked that the year marked as 2001 should also be corrected to 2011 on page 4 and 5.

In response to Mr. Barnard, Mr. Hollingsworth noted the increase to budget for the driver liability reserves is due to the increase in the fleet with the opening of the Rental Car Facility and the addition of 21 buses.

Commissioner Albro noted that the number of incidents reported on page 5 of the report includes workers compensation, and asked how many of the incidents were actually managed by risk management. Ms. Riddle responded that for 2011 it was just under 700 incidents. Commissioner Albro commented that appeared to be a high incidence of worker's compensation at the Port of Seattle and asked management to review and report on reasons for the high incidents of worker's compensation and claims. Mr. Hollingsworth noted that information only incidents are included in that number, which does not mean each claim involved an injury or lost time.

Update on Peer Review for Internal Audit Department:

Ms. Kirangi stated the proposed date for the Association of Local Government Auditors (ALGA) to conduct the peer review is July 9, 2012-July 13, 2012. She noted that there would be an entrance conference at the July 10, 2012, Audit Committee meeting. In response to Commissioner Albro, Mr. Barnard noted the exit conference would be in August and there would be a representative from the ALGA available in person at that meeting.

Update on RFP for Enterprise Technology Risk and Performance Assessment:

Mr. Hutchinson reported that the Port received 13 proposals in response to the request for proposal for enterprise and technology risk and performance assessment and staff has shortlisted three of them. He stated the contract should be in place in the next three to four weeks.

Update on Fleet Management Audit:

Mr. Austin noted the original audit finding was reported to the Committee on September 7, 2011. He reported that there were two findings as follows:

- The Maximo maintenance management system was not used to its full potential; and
- Executive Policy number 17 was not fully followed.

Mr. Austin commented that in regards to the first finding there were a number of recommendations made by Internal Audit. He noted that to date an assessment has been completed of the Maximo data sets to establish a single fleet screen with common data fields to be used Port-wide. In addition, he noted, a new fuel interface system that gives almost real-time daily transactions from the fuel system into Maximo. In regards to the recommendation of using Maximo to issue six digit numbers he stated that currently the focus is on creating common nomenclature in the Port-wide. He noted that there are challenges in going to a computer-generated number. He noted that the inventory in Maximo would include items not in the fleet, so there would be a gap in numbers. Ms. Lobdell noted six digits will also make it difficult to quickly identify fleet vehicles by number. Mr. Austin noted that staff is looking into using the Maximo system to assign inventory numbers to the fleet; however, the current focus is to get common data.

Ms. Lobdell stated that Executive Policy 17 is in final review by the fleet management oversight team. After the fleet management oversight team has completed its final review, the next step reported by Ms. Lobdell would be to meet with the fleet administrators in supporting departments for feedback before moving forward with changes to the policy. Ms. Lobdell reported that the fleet management oversight team is considering building and implementing training in 2013 through the Port's Learning Management System.

Commissioner Albro requested a final briefing in January or February of 2013 when the recommendations have been completed.

Review of Look-Ahead Calendar:

Mr. Barnard stated that the look-ahead calendar is subject to change. He noted date changes for the audit committee meetings in June and July. Ms. Gehrke requested an update of audit coverage and audit plans for the year at the next audit committee meeting. Ms. Kirangi stated Internal Audit will bring the comprehensive work plan to the next meeting.

Adjournment:

There being no further business, the special meeting was adjourned at 10:32 a.m.