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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](http://www.portseattle.org).*

**APPROVED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING JUNE 12, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, June 12, 2012, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Albro, alternate member Commissioner Creighton, and Christina Gehrke. Also present were Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Ben Wolfram, Internal Auditor; Brian Nancekivell, Senior Internal Auditor; Ralph Graves, Managing Director, Capital Development Division; Deanna Zachrisson, Manager, Concessions Management; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

**Call to Order:**

The committee special meeting was called to order at 9:03 a.m. by Commissioner Albro.

**Approval of Audit Committee Meeting Minutes of May 15, 2012:**

**On motion by Commissioner Creighton, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of May 15, 2012, were approved.**

**Lease and Concession Audit – Airport Management Services (Hudson News):**

Ms. Kirangi noted the purpose of the Airport Management Services lease and concession audit was to determine compliance with the following:

- Complete reporting of sales subject to gross receipts;
- Complete reporting of retail display allowances (RDAs) in the report of gross receipts; and
- Compliance with significant provisions of the agreement including the certified CPA report.

As stated in the report, the audit period covered May 1, 2008, through April 30, 2010.

Ms. Kirangi reported there were three audit findings, which include the following:

- Underreported concession of RDAs in the amount of \$297,679;
- Concession overpayment on certain specialty goods in the amount of \$116,336; and
- Underreporting of receipts related to promotional and marketing in the amount of \$74,916.

Ms. Kirangi noted that calculating the RDA allowance is complicated. Ms. Zachrisson explained that RDA is what the publishers pay for their items to be located in certain places, and is not part of gross sales. She stated that staff cannot confirm proper payment unless there is an audit. In response to Commissioner Albro, Ms. Zachrisson stated that the RDA underpayment was not intentional and not anticipated to be an issue in the future.

**Limited Operational Audit – Delegation of Authority, Resolution No. 3605, as amended:**

Mr. Wolfgram noted that the purpose of the delegation of authority limited operational audit was to determine the following:

- Whether the delegation of authority under Resolution No. 3605, as amended, is efficient and effective;
- Whether management has adequate controls and has complied with the requirements of Resolution No. 3605, as amended;
- Whether the requirements of Resolution No. 3605, as amended, continue to be commensurate with the risks; and
- Whether there have been any unintended consequences due to Resolution No. 3605, as amended.

Mr. Wolfgram reported there were no audit findings. He noted that the perceived risks at the time the resolution was adopted have been addressed and there is a dedicated effort among staff to comply. He noted that during the review period, over 90 percent of contract dollars expended were subject to Commission authorization.

In response to Commissioner Creighton, Mr. Wolfgram stated that the \$600,000 delegation of authority benchmark was based on authorization thresholds for public works contracting from the benchmark survey of other airports and port districts conducted by Internal Audit staff.

In response to Ms. Gehrke, Mr. Graves noted that all payment to entities outside the Port is covered under Resolution No. 3605, as amended. In response to Ms. Gehrke, Mr. Hutchinson noted that audit included an examination of contracts under \$300,000 to see if contracts were split up to avoid Commission authorization; however, the focus was on contracts with a high dollar value. Ms. Gehrke commented that the examination of contracts under \$300,000 was not mentioned in the written audit report and the report would be more comprehensive if the information was included. Commissioner Albro asked for an addendum to the procedures and objectives section of the report to clarify the point.

In response to Commissioner Creighton, Mr. Graves noted that most contracts with small businesses fall under the threshold of Resolution No. 3605, as amended, and do not require Commission authorization. Mr. Graves stated that promptness with which payments are made is only one piece of what draws small businesses. He noted that bonding requirements, safety regulations, and the required use of unionized contractors verses non-union contractors also affect the interest of small businesses in working with the Port of Seattle. Mr. Thomas added that staff has been tracking the days to pay and on average it is approximately 45 days. He stated that staff is working to improve and get payment down to the 30-day requirement reflected in most contracts.

**Limited Operational Audit – Corporate Cost Allocation:**

Mr. Nancekivell stated the purpose of the corporate cost allocation limited operational audit was to determine whether Port corporate costs are allocated to the operating divisions based on a reasonable and cost-effective basis. He reported there were no audit findings and noted the underlying risk of cost allocations is revenue diversion, such as Airport funding going to a non-aviation division. He mentioned the Federal Aviation Administration's concern over revenue being inappropriately diverted from the Airport to a non-aviation division because the Airport receives federal money. Commissioner Albro noted that the Airport does not receive any funding from the Port's tax levy.

**Updated Look Ahead Calendar:**

Mr. Barnard noted the July 3, 2012, Audit Committee meeting has been cancelled. He stated that all items from the July 3 meeting are now on the August agenda, which includes the peer review for the Internal Audit department entrance conference. He noted the exit conference for the peer review will be held in September. Commissioner Albro asked that all committee members look at the dates on the look-ahead calendar and make sure the dates work with their schedules. Commissioner Albro noted that meeting every other month might be appropriate for the Audit Committee. Commissioner Creighton noted his support for meeting every other month.

**2012 Work Plan Status:**

Mr. Hutchinson responded to Commissioner Albro that audits on Port-wide activities take longer to complete than lease and concession audits, but the Internal Audit department should be able to complete the 25 audits planned for 2012 by the end of the year.

**New Business:**

Commissioner Albro asked about the timing of a briefing on the balance sheet as discussed at the May 15, 2012, Audit Committee meeting. Mr. Barnard responded that staff is working on how to present the information to both the Audit Committee and the other members of Commission. Mr. Thomas noted that the balance sheets are not typically discussed in financial briefings, but staff is preparing a briefing to discuss the different aspects of the balance sheet.

**Adjournment:**

There being no further business, the special meeting was adjourned at 10:15 a.m.

Bill Bryant

Minutes approved: August 7, 2012