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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 AUGUST 07, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, August 7, 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 Tay Yoshitani, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Ruth Riddle, Audit Staff; Rudy Caluza, Director of Accounting and Financial Review; Lisa Lam, Senior Manager, Accounting and Financial Reporting; Ralph Graves, Managing Director, Capital Development Department; Ruthe Holden, CPA, CISA, CIA, CGAP, CGMA, Chief Auditor, Los Angeles County Metropolitan Transportation Authority; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 9:16 a.m. by Commissioner Albro.

Approval of Audit Committee Meeting Minutes of June 12, 2012:

On motion by Commissioner Bryant, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of June 12, 2012, were approved.

Lease and Concession Audit – National Car Rental:

At the discretion of the Chair, a written report was accepted in lieu of a staff presentation on the Lease and Concession Audit of National Car Rental, covering the period of November 1, 2008, to October 31, 2011. The purpose of the audit, as reported, was to determine the following:

- Reported concession fees were complete, properly calculated, and remitted timely to the Port;
- Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended;
- Customer Facility Charges were properly collected and remitted timely to the Port.

The report included no findings of significance.

Lease and Concession Audit – Alamo Car Rental:

At the discretion of the Chair, a written report was accepted in lieu of a staff presentation on the Lease and Concession Audit of Alamo Car Rental, covering the period of November 1, 2008, to October 31, 2011. The purpose of the audit, as reported, was to determine the following:

- Reported concession fees were complete, properly calculated, and remitted timely to the Port;

- Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended;
- Customer Facility Charges were properly collected and remitted timely to the Port.

The report included no findings of significance.

In regards to the National Car Rental and Alamo Car Rental Lease and Concession audits, and in response to Commissioner Albro, Ms. Hutchinson explained that the 2008 concession fee was the first year of the lease and the amount reflected was the minimum annual guarantee, which was agreed upon by both parties when the lease was negotiated.

Limited Operational Audit – Procurement Card Administration:

Ms. Riddle noted that new procurement card (pcard) program and policy was implemented at the Port of Seattle on April 1, 2011. She reported that the limited operational audit covered the period from April 1, 2011, to February 29, 2012. She commented that the expansion of the pcard program allows for Aviation and Seaport Maintenance to procure parts with the pcard, which allows for the parts to be ordered quicker and a quicker turn around for fleet maintenance.

As a result of the expansion of the pcard program, Ms. Riddle, noted that the number of purchase orders has decreased as items are procured using a pcard instead of a purchase order. In response to Commissioner Bryant, Ms. Riddle stated that the cost of processing a purchase order is approximately twice the cost of processing the same purchase using a pcard.

She reported one opportunity of improvement; changes to policy CPO-7 could optimize the use of the pcard, while continuing to manage risks to the Port, as included in the following:

- Transaction limits and monthly expenditure limits are higher than business needs;
- The pcard program could be expanded into A-Type purchase orders to maximize efficiency and cost savings;
- The requirement for re-purchase approval is not a typical control over procurement card purchases.

In response to Commissioner Albro, Ms. Graves noted that management is evaluating the audit recommendations, but has not made any decisions regarding the relaxation of controls on the pcard program. He noted that as staff gets used to the controls in place the pcard process will go smoother.

CAFR follow-up: Balance Sheet Overview:

Ms. Lam discussed the assets, liabilities, and net position aspects of the Port's balance sheet, including the terminology of the different line items of each aspect; and the variance of each line item between the year 2010 and 2011.

Commissioner Bryant commented that the Port does not set the levy rate, the Commission sets a flat amount. In response to Commissioner Albro, Ms. Lam noted that the decrease in the levy collected between 2010 and 2011 reflects a delinquency in collections.

In response to Commissioner Albro, Ms. Lam noted that to reclassify an asset from capital to "held for sale," the Port would have to have Commission authorization, the asset would need to be immediately available for sale, and the Port would have to actively be looking for a buyer and wanting to sell the asset within one year.

Ms. Lam noted that accounting standards caution against creating too broad of a definition for restricted and unrestricted assets. As an example, she noted there is a law that dictates the Port can not make a gift of public funds, which limits how Port money can be spent, however, that would be too broad to be a useful definition of restricted asset.

Internal Audit Peer Review – Entrance Conference:

Ms. Holden provided an overview of the Association of Local Government Auditors (ALGA) and the peer review process as conducted by ALGA. She noted the Port has asked for a peer review based on Government Auditing Standards (Yellow Book) standards and Institute of Internal Auditors International Professional Practices Framework (Red Book) standards. She commented that the Yellow Book focuses on the audit level, but does not look at how an audit department is managed. She noted that the Red Book comments on how an audit department should add value to an organization. She opined that there is little conflict between the two books and that it is becoming a leading edge practice to adopt both books, and become what is known as an orange book shop. She noted that within ALGA's 300-400 member organizations there are approximately 20 government shops that are orange book shops.

There are two phases of the peer review, Ms. Holden stated. She noted the first is to look at the quality control system within the audit department and compare it to the standards She remarked the first phase is completed before coming on site. She stated the second phase is to look at the projects of the department and see if the control system is functioning as intended.

In response to Commissioner Albro, Ms. Holden stated that non-audit services is the Yellow Book term for consulting services, such as a review that is not issued as an audit under Yellow Book standards. She noted that the Yellow Book discourages consulting services and provides limited guidance for consulting services. She stated that the Red Book provides more detailed standards for consulting services.

Commissioner Albro commented that currently the Internal Audit department is a Yellow Book shop, however, the Red Book peer review was requested to see what resources would be required for the Internal Audit department to become an Orange Book shop.

2012 Work Plan Status:

Ms. Kirangi noted there have been two requests from management for additional work in 2012, a lease and concession audit for Doug Fox Parking, and assistance with the airport public parking control process. Ms. Kirangi commented that the Doug Fox Parking lease expires at the end of the 2012, and in general the Internal Audit department performs a lease and concession audit when the lease is expiring, but while formulating the 2012 work plan, the Doug Fox lease was missed. She noted that the lease and concession audit would not take long. In regards to the Airport public parking request, Ms. Kirangi stated that there are glitches in the system and numbers are not matching up so management has requested that the Internal

Audit department come and help assess the situation. In response to Ms. Gehrke, Ms. Kirangi explained that adding the additional work might result in one or two audits being finished in 2013.

Ms. Gehrke asked how the two additional requests rate in the Internal Audit department's risk framework. Ms. Kirangi responded that management wants to know how the current tenant complied with the lease terms before completing the request for proposal process, which makes the audit important. Mr. Yoshitani commented that the annual work plan needs to be flexible to take into account items that can't be foreseen while creating the work plan for the year. He also noted that Port is out of compliance with PCI security standards in the Airport public parking garage, in regards to credit and debit card transactions. Commissioner Albro voiced no concern over the lease and concession audit for Dog Foxl. He advised Ms. Kirangi that in regards to the Airport public parking garage, she might assess the skill set of her staff and make sure it is an appropriate use of Internal Audit staff time. He cautioned that any work done for the Airport public parking garage must not compromise the independence of the Internal Audit department as the department will be auditing the public parking garage in the future, and it would not be in the best interest of the department if there is bias to a solution.

Commissioner Bryant requested the World Trade Center and Bell Harbor operational audit and the real estate portfolio audit to be moved to September and October.

Ms. Hutchinson noted that Information and Communication Technology (ICT) audit will start in September, finish in December, and exit in January or February of 2013. Commissioner Bryant commented that the Commission wanted the results of the ICT audit before voting on the budget for 2013 in November. He asked to have the results of the audit before the budget is voted on if possible. Commissioner Albro asked for the entrance conference for the ICT audit at the September Audit Committee Meeting. In addition, Commissioner Albro requested budget discussions for the Internal Audit department in September, and to finalize the 2013 work plan in December.

Adjournment:

There being no further business, the special meeting was adjourned at 11:02 a.m.

Bill Bryant

Minutes approved: September 11, 2012