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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 SEPTEMBER 11, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, September 11, 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 Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Ruthe Holden, CPA, CISA, CIA, CGAP, CGMA, Chief Auditor, Los Angeles County Metropolitan Transportation Authority; Tony Samer, Managing Director, Protiviti; Daniel Hansen, Associate Director, Protiviti; Laurie Tish, Moss Adams; Stacy Mattson, Manager, Airport Landside Operations; Jeff Hoevet, Senior Manager Airport Operations; Brian Nancekivell, Senior Internal Auditor; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 9:02 a.m. by Commissioner Albro.

Approval of Audit Committee Meeting Minutes of August 7, 2012:

On motion by Commissioner Bryant, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of August 7, 2012, were approved.

Peer Review Exit Interview:

Ms. Holden noted that in regards to the Government Auditing Standards (Yellow Book) the Internal Audit department received a pass, which means the department complies with the Yellow Book standards. For the International Standards for the Professional Practice of Internal Auditing (Red Book), Ms. Holden reported that the Internal Audit department received a pass with deficiencies, which means the department partially complies with the standards. She noted that the Internal Audit department does not follow Red Book standards at the current time. Commissioner Albro commented that the Red Book peer review was conducted in order to see what changes would be required for the Internal Audit department to comply with the Red Book standards.

Ms. Holden reported that for the Yellow Book peer review the Internal Audit department received the highest rating. She noted that there was a management letter issued that included areas of excellence as well as recommended areas of improvement. She stated that there were two areas recommended for

improvement in a management letter: implementation of annual monitoring of quality; and update the Auditors Handbook used by the Internal Audit department.

Ms. Holden reported that the Internal Audit department received a medium rating for the Red Book peer review and noted the following deficiencies:

- Update and Implement the Internal Audit department charter;
- Provide mandatory communication; and
- Update the Auditor's Handbook to include language needed from the Red Book.

Ms. Gehrke lauded the Internal Audit department for receiving a medium rating on the Red Book peer review because the department does not follow Red Book standards. Commissioner Albro concurred and thanked Ms. Holden and the peer review committee for their work and noted the Audit Committee would convey their appreciation by letter.

Ms. Kirangi stated that the Internal Audit department is formalizing the process for performing a self-assessment at the end of the year. She noted that the Internal Audit department has always immediately addressed any items of concern, but there is no formalized process for reporting and recording that information. She stated that in the future the process will be formalized and any issues that arise throughout the year will be recorded in order to be able to report back to the Audit Committee and comply with the Yellow Book standards. In response to Ms. Gehrke, Ms. Kirangi stated the Audit Committee would see the first report at the end of the current year.

To be in compliance with the Red Book standards, Ms. Kirangi noted the Internal Audit department charter will need to be updated and implemented by the Audit Committee. In addition, she noted the mandatory communication to the board will include a declaration of independence. She stated that the Internal Audit department would like to be in compliance with both standards. Commissioner Albro asked if the Committee would like to move to an orange book shop (following the Red and Yellow books standards), to which Commissioner Bryant and Ms. Gehrke responded yes. Commissioner Albro asked to have an updated Internal Audit department charter in November for discussion to be adopted in December. Mr. Barnard suggested discussing the Audit Committee charter at the same to make sure the two documents do not conflict.

IT Performance and IT Risk Assessment Entrance Conference:

Mr. Samer stated that the Protiviti team is conducting an enterprise level technology assessment, which includes independent risk assessment and an assessment of the performance of information technology at the Port. He noted that the Port is a diverse business with diverse business requirements.

In response to Commissioner Bryant, Mr. Samer stated that the deliverables will include: an overall set of performance assessments, audit risk assessment, and a recommended three-year audit plan. In response to Commissioner Albro, Mr. Samer noted that the audit plan would include reasoning for the prioritization. Commissioner Albro asked if Protiviti would be providing the type of skill sets that would be required for the Internal Audit department to be able to perform future assessments and audits on information technology, and whether it is advisable to internalize such functions. Mr. Samer responded that it was not a formal part of what Protiviti was asked to provide, but they would be willing to provide discussion on the topic.

Mr. Hansen stated the audit plan provides comments that will allow staff to infer what skill sets would be necessary. Mr. Samer stated the pace of technology change creates a challenge when maintaining the necessary skill sets to audit information technology.

In response to Commissioner Albro, Mr. Samer noted that there are benchmarks available to evaluate ICT, including the Information Technology Process Institute (ITPI) benchmarks. He noted that the benchmarks look at the size of the environment, headcount, time spent assisting, etc. He stated there will be variations depending on the line of business. Commissioner Bryant stated that the Commission wants to know whether the growing ICT budget is being spent prudently. Mr. Samer replied that the assessment would address that concern. In response to Commissioner Albro, Mr. Samer noted that the assessment will look at the governance structure.

Commissioner Albro asked to have the exit conference in December. Commissioner Bryant asked that if during the risk assessment there is a finding with budget implications that the finding be communicated in an interim report at the end of the October. Commissioner Albro requested that the stance the Port is taking on information technology investments be presented during the budget briefings to the full Commission.

In response to Mr. Barnard, Mr. Samer stated that a capability maturity model is a framework used to help evaluate an organization's capabilities and abilities against where they want to be across several areas.

Moss Adams CAFR Audit Entrance Conference:

Ms. Tish noted that Moss Adams will be conducting the single audit of the Port, which includes the audit of the financial statements, which includes the enterprise fund and the pension trust fund. She stated the single audit also encompasses the audit and reporting on the internal controls and compliance over the federal awards received by the Port. She commented the scope of work also includes an audit and report on the passenger facility charges, which is not included in the single audit, but is required by the Federal Aviation Administration. The last item included in the scope of work, Ms. Tish stated, is the schedule of net revenue available for revenue bond debt service, which is required by bond covenants.

In response to Commissioner Albro, Ms. Tish noted that risk areas change depending on circumstances. She provided as an example the new risk represented by sale of portions of the Eastside Rail Corridor. Ms. Tish noted that there are three types of risk, inherent, control, and detection. Commissioner Albro requested an examination of real property disposition.

Ms. Tish noted that new audit standards are going into effect in 2012 and those changes will be discussed during the exit conference. She commented that the new standards are referred to as the clarity standards and involve changes to the wording of the opinion letters.

Mr. Barnard commented that it might be appropriate to have an interim briefing on the comprehensive annual financial report audit depending on the composition of the Audit Committee at the beginning of the year.

Comprehensive Operational Audit – Ground Transportation:

Mr. Nancekivell reported that the comprehensive operational audit on ground transportation covered the period of January 1, 2010, to June 30, 2012. He noted the purpose of the audit was to determine the following:

- All applicable tariffs are charged accurately, collected properly, and deposited intact;
- Concession revenue is properly calculated per the concession agreement and remitted timely; and
- All violations have been processed.

In response to Commissioner Albro, Mr. Nancekivell stated that a bell in service is when there are not enough taxis to provide service and the Port has to call in more.

Mr. Nancekivell reported that the concession fees were not adequately monitored, but that no money was owed. Ms. Mattson commented that the expectation of receiving a quarterly report was not clear, but will not be an issue in the future.

Mr. Nancekivell stated that about 20 percent of the violations were missing. Ms. Mattson noted that recorded violations have to be billed or appealed once they are issued. She commented that staff tries to gain cooperation of a violator before issuing a violation, sometimes by starting to fill out a violation, but then voiding the violation. She stated that voided violations would not be in the system.

In response to Mr. Barnard, Mr. Hoevet noted that a mobile solution for issuing violations is in development. Ms. Mattson commented that it would be at least one or two years before it would be implemented.

Commissioner Albro requested a discussion on the Internal Audit department budget at the next Audit Committee meeting.

Adjournment:

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

Bill Bryant
Minutes approved: November 13, 2012