

Commissioners

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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.

**PROPOSED MINUTES
AUDIT COMMITTEE SPECIAL MEETING OCTOBER 2, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, March 6, 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; Ryan Donnell, State Auditor's Office, Audit Lead; Tyler Winchell, Performance 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.

SAO Accountability Audit:

Mr. Donnell noted that the State Auditor's Office (SAO) uses a risk-based assessment not a checklist when the SAO conducts an audit. He stated the scope of the audit includes: conflict of interest; parking revenue control system; change orders; payroll; general disbursements; follow-up on prior audit recommendations (ScRAPS & Port Labor); self-insurance program; and state grants. In response to Commissioner Albro, Mr. Donnell noted that the SAO's office does not duplicate work that has already been done, the SAO will review work already completed and if necessary follow-up with additional work. In response to Commissioner Albro, Mr. Donnell stated that the tentative exit conference is December 4, 2012. He commented that the cost of the audit is anticipated for \$83,500.

Lease and Concession Audit – Doug Fox Parking

Mr. Hutchinson noted that the lease with Doug Fox Parking expires at the end of the year. He stated that the audit period covered the period of October 1, 2009, to May 31, 2012. The purpose of the audit was to determine the following:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port; and
- The annual report is accurate, complete, and timely.

Mr. Hutchinson reported one finding: untimely reporting of online reservation deposits. He noted that there is a \$10 deposit for online reservations made to park at Doug Fox parking and when there are no-shows the \$10 is forfeited. He noted that the total amount of forfeited deposits was \$25,000, which resulted in

\$14,000 in concessions due to the Port. Commissioner Albro commented that the \$14,000 is out of \$4.5 million. In response to Commissioner Albro, Mr. Yoshitani confirmed that management is pursuing collection of the \$14,000.

Comprehensive Operational Audit – Airport Customer Services Department:

Mr. Winchell reported the purpose of the Airport Customer Services department audit was to determine whether management has employed adequate controls to ensure:

- Revenues derived from common-use systems in the terminal are complete; and
- Analytical processes and metrics for evaluating passenger customer service are effective.

He stated that common-use systems are the physical infrastructure and systems that support more than one airline. He stated there were no significant findings.

Mr. Hutchinson responded to Commissioner Albro's question regarding the ICT risk assessment noting that the external assessment team finished a two-week site visit and is returning to their office to review the data and collect common denominators before coming back to the Port and moving on to the next step in the risk assessment plan. Mr. Hutchinson noted that there will be a written report in the first couple weeks of October.

Proposed Internal Audit Department Charter:

Ms. Kirangi noted that the Internal Audit department charter is required as part of the International Standards for Internal Auditing (Red Book). She commented that the Internal Audit department has been using the charter as a best practice, but that it has never been formally adopted.

Mr. Yoshitani stated that the reference to the approval of the budget in the independence section of the internal charter needs to reflect that the full Commission approves the budget not the Audit Committee. He commented the Audit Committee should have a role in the budget discussions for the Internal Audit department, but the approval is by the Commission. Mr. Barnard clarified that the sentence will reflect that the Audit Committee will review and recommend to the full Commission, but it will not approve the budget.

Commissioner Albro asked to have a signature line for the Commission President added to the list of signatures at the bottom of the Internal Audit department charter, and the order of the signatures to be as follows: the Commission President; the Audit Committee Chair; Chief Executive Officer; and Internal Audit Director. Commissioner Albro asked for a specific month of the year to be selected for the annual communication described the Internal Audit department charter.

Commission Albro requested the Internal Audit department charter be reviewed over the next few weeks and come back in November for the Audit Committee to recommend to the full Commission for approval.

Preliminary Discussion of the 2013 Internal Audit Budget:

Ms. Kirangi stated that the original proposed budget for the Internal Audit department incorporated two new full-time employees (FTEs) to focus on lease and concession audits, but during the preliminary budget

discussions, and in the context of the larger Port-wide budget, it was decided to defer those FTEs to another year. Mr. Yoshitani noted that the number of auditors can define the cycle of the audits. Mr. Yoshitani responded to Ms. Gehrke that other departments had been denied additional of FTEs. Ms. Gehrke suggested Ms. Kirangi return with a plan that takes into account the current staffing levels that will meet the objectives of the Internal Audit department and the Audit Committee to include more comprehensive operational audits, and look at lengthening the cycle between lease and concession audits. Ms. Gehrke commented that over the years there seem to be fewer findings in lease and concession audits.

Commissioner Albro asked for the forecast of the 2012 actual budget. Mr. Hutchinson stated that it would be close to the budgeted amount, but it is too soon to say what the actual will be. Commissioner Albro asked to have project actuals at future budget briefings in 2013. Mr. Yoshitani stated that the time restriction to statutorily file the budget only allows for the actuals of the first and second quarter.

Commissioner Bryant voiced his approval at recommending the proposed budget for the Internal Audit department to the full Commission. Commissioner Albro concurred.

Discussion of Audit Committee Charter:

Ms. Gehrke recommended rewording the second paragraph under the Purpose and Authority section of the charter to say the Audit Committee has determined that any internal audits shall be conducted in accordance with the Government Auditing Standards and the International Standards for Internal Auditing. In addition, she recommended adding a reference that the Audit Committee recommends the annual budget for the Internal Audit department to the Commission, and the Audit Committee's role in the approval of the placement/dismissal of the internal audit director and external auditors if appropriate to mirror the Internal Audit department charter. She suggested changing the last bullet on page two of the Audit Committee charter to say "other external auditors" instead of "performance auditors."

Ms. Gehrke asked for information on the reference in the Audit Committee charter to one- and five-year goals because the Audit Committee has not in recent years discussed goals for the Committee. Mr. Barnard commented that at the time the charter was originally written the one- and five-year goals were appropriate for the Audit Committee to focus on; however, one of the questions for the current Audit Committee to consider is whether one- and five-year goals are still necessary. Commissioner Albro stated that he did not see the need for having one- and five-year goals, and perhaps generalizing the language to read "approve one-year and, as necessary, longer term goals and objectives for the Audit Committee."

Commissioner Albro concurred with Ms. Gehrke's observations and requested adding under Purpose and Authority the Audit Committee's oversight role over the Internal Audit department relating to the items contained in the Internal Audit department charter, but limited to make recommendations to the full Commission. Mr. Barnard commented that the issue for the Internal Audit department charter would fit better on page three. Commissioner Albro concurred, but that under Purpose and Authority the charter should have a general statement that the Audit Committee is responsible for overseeing the Internal Audit department and making recommendations based on observations to the full Commission. Commissioner Albro concurred with Mr. Barnard that the Audit Committee charter only require one annual briefing to the full Commission, with the understanding that if necessary additional reports to the Commission would be issued.

November date change reminder and look-ahead calendar:

Mr. Barnard confirmed with the Audit Committee members that the next Audit Committee meeting would be moved to November 13, 2012. All members confirmed they would be available and present.

Commissioner Bryant requested an update on the IT risk assessment at the November 13, 2012, Audit Committee meeting. In response to Mr. Barnard, Commissioner Bryant stated that in lieu of a presentation a written report provided to all of the Commissioners prior to November 13, 2012, would be acceptable. Commissioner Albro asked to have the report 10 days before November 13, 2012, in case it becomes necessary to bring the Protiviti team back to report.

Adjournment:

There being no further business, the special meeting was adjourned at 10:12 a.m.

Bill Bryant

Minutes approved: November 13, 2012