

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

**APPROVED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING DECEMBER 4, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, December 4, 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, Audit Lead, State Auditor's Office (SAO); Carol Ehlinger, Audit Manager, State Auditor's Office; Ruth Riddle, Senior Internal Auditor; Ben Wolfram, Internal Auditor; Tyler Winchell, Performance Auditor; Melinda Miller, Manager, Seaport Commercial Development; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

**Call to Order:**

The committee special meeting was called to order at 9:13 a.m. by Commissioner Albro.

**SAO Exit Conference – 2012 Port of Seattle Accountability Audit**

Mr. Donnell reported there were two findings in the audit report, the first of which was regarding internal controls at the Airport Parking Garage. He noted the Port did not identify the full amount of the loss for parking fees that failed to process correctly. He stated that there were 10,500 parking fees that failed to process correctly, 864 of them in 2011. He stated that once the Port determines the root cause of the failures, if it is determined the Port can seek recovery from the vendor, the Port should recalculate the loss amount to include the 2011 failed transactions, and any failed transactions prior to 2011. He reported that the Port has developed reconciliation procedures for identifying exception transactions, but they have not been implemented, and they do not include procedures for determining the cause of the exception. He stated the new system is still not properly processing transactions and is overbilling customers. In response to Commissioner Albro, Mr. Donnell stated that the Port was timely in reporting the loss of revenue to the SAO. Mr. Donnell commented that the SAO recommends going to the vendor to recover fees. He also noted that the new system is still not accurate. In response to Commissioner Albro, Mr. Donnell stated that the loss was prior to the conversion to the new system and that there have been subsequent losses after the changeover.

Mr. Donnell stated the second finding was the payment to shipping companies as part of the Clean Air Program, ABC (At-Berth Clean) Fuels, constituted a gift of public funds. Commissioner Bryant stated that the incentive for carriers to burn higher quality fuel is a proactive measure to help the Port be in compliance with federal regulations and asked how it could be considered a gift. Mr. Donnell responded that the Port's position was communicated to the SAO legal staff, but it was still found to be a gift of public funds. In

response to Commissioner Albro, Ms. Ehlinger stated the SAO would recommend staff have a conversation with the Port's attorneys and then ask the SAO if there is a question about whether something is a gift of public funds. In response to Commissioner Albro, Ms. Ehlinger stated that for guidelines, one should refer to the Revised Code of Washington (RCW). Ms. Ehlinger noted that the SAO did not conclude that the program is prohibited, but the manner in which it is conducted needs to be revised. In response to Commissioner Bryant, Ms. Ehlinger commented that each program is different, but that she could recommend that the SAO look at comparable incentive programs in Washington. Commissioner Bryant stated it would be helpful to have case studies. Commissioner Albro recommended reaching out to the Washington Public Ports Association to connect to ports across the states to ensure any paper would be beneficial to all ports in Washington State. Ms. Ehlinger stated she would start the conversation for such work with her management when returning to the office and would communicate back to Mr. Barnard the results of that conversation. Mr. Yoshitani commented that he is optimistic that the program will be able to continue under the existing RCW, and that staff is working with the SAO to come up with an acceptable solution. He noted the alternative would be to go to Olympia and try to change the law. He noted that ocean-going vessels account for 40 percent of the pollution from Port operations.

**Operational Audit – Third-Party Administration of Self-Insured Medical and Dental Coverage:**

Ms. Riddle explained that the administration of the self-insured medical and dental coverage is a third-party agreement. She stated that in 2011 and 2012, medical insurance was administrated by Premera and dental insurance was administrated by Washington Dental. She noted that for 2013, medical insurance will be administered by Cigna and dental insurance will be administered by Washington Dental. Ms. Riddle stated the objective of the audits was to determine the following:

- Port management controls are adequate to ensure:
  - ▶ Proper processing and verification of claims billings;
  - ▶ Proper processing and verification of administrative fee billings;
  - ▶ Claims paid are valid and for eligible parties;
  - ▶ Proper validation of dependents receiving medical and dental benefits; and
  - ▶ Compliance with legal requirements; and
- Port management has complied with legal requirements related to annual reporting to the state.

The audit period covered January 1, 2011, through June 30, 2012.

Ms. Riddle noted there were two findings, which are considered opportunities for improvement:

- The Port's oversight of the self-insured medical and dental program can be improved.
- The Port's process for determining eligibility of dependents to be covered by the Port's insurance benefit plans can be improved.

In response to Ms. Gehrke, Ms. Riddle stated that it should be a Port-wide process to obtain annually a Statements on Standards for Attestation Engagements (SSAE) 16 report for contracts that provide for services that are the Port's responsibility.

**Operational Audit – Compliance Cost of Central Procurement Office Policies and Procedures:**

Mr. Wolfgram stated that the purpose of the audit was to determine whether the Central Procurement Office (CPO) has sufficient controls to reasonably ensure the following:

- CPO processes related to service agreement procurement are efficient, specifically:
  - ▶ Whether CPO-1 policy has significantly more requirements than state law; and
  - ▶ Whether the CPO's controls provide an objective measure of the efficiency of the service agreement procurement process; and
- The Port is in compliance with requirements that prohibit splitting contracts and purchases to avoid requirements related to:
  - ▶ Service agreements; and
  - ▶ Purchases of goods and services.

Mr. Wolfgram noted that the audit period covered 2008 through 2012. Mr. Wolfgram noted that CPO has improved and streamlined processes since their inception in 2008 and engaged with management to get feedback. In particular, he noted the following:

- Development of the Procurement and Roster Management System to maintain consultant rosters and advertise Port contracting opportunities;
- Engagement with the Continuous Process Improvement initiative to develop a consensus evaluation process to shorten the evaluation timeline for service agreements;
- Formation of advisory committees of stakeholders to share information regarding procurement policies and procedures; and
- Establishment of an acquisition planning process to develop procurement strategy early in the process.

Ms. Huey responded to Commissioner Bryant that the advisory committee for service agreements was formed circa 2010. Ms. Huey responded to Commissioner Bryant that the committee is comprised of managers and directors of the Port. She noted that staff also meets quarterly with the American Council of Engineering Companies consultant committee.

Mr. Wolfgram reported one finding; the CPO's controls could be improved to provide an objective measure of the efficiency of the service agreement procurement process. He noted Internal Audit recommends that the CPO department develop and implement metrics that allow them to have an objective measure.

Commissioner Bryant stated that there is frustration with the process by those trying to conduct business with the Port and a perception that the process is cumbersome and not efficient. Ms. Huey stated that staff is looking at ways to speed up efficiency in the process of selecting consultants. She noted that it is not just CPO that is involved. In response to Commissioner Albro, Ms. Huey stated that changes to Resolution No. 3605, as amended by Resolution No. 3628, would help processes that occur after the contract is executed.

#### **[Risk-Based Audit Approach: Real Estate Portfolio Department Audit:](#)**

Mr. Winchell stated that the Port has two Real Estate policies with six sub-procedures. He noted that the Port's real estate policies cover a broad range of topics, including the acquisition of assets, the management of assets, and the divesting of assets. He stated the Real Estate Portfolio department only

focuses on the management of assets within the Real Estate division. In response to Commissioner Albro, Ms. Miller stated the Real Estate Portfolio department manages the built existing assets and a couple of built land assets. She noted there are 14 employees in the group.

**Proposed Audit Committee Charter:**

Commissioner Bryant proposed recommending the Audit Committee Charter to the Commission for approval. Commissioner Albro concurred.

**Approval of the 2013 Internal Audit Work Plan:**

Ms. Kirangi stated that the Internal Audit department is cutting back hours spent on lease and concession audits and focusing 78 percent of the time on audits of the organization. Commissioner Albro voiced his approval of auditing the organization more and lease and concession audits less. In response to Commissioner Bryant, Ms. Kirangi stated that the audit plan should be flexible and revisited throughout the year.

Ms. Kirangi responded to Commissioner Albro that the risk assessment is scored by Internal Audit staff using input from Port staff. Commissioner Albro requested a list of all the auditable items that have not been audited.

In response to Ms. Gehrke, Ms. Kirangi noted that the two incomplete audits are again subject to risk assessment, and affirmed that their risk level was less than the previous year. Ms. Gehrke suggested adding to the documentation an explanation of why the level of risk decreased. Ms. Gehrke suggested unchecking the items that were not completed from the list of audited items. Mr. Barnard suggested marking items on attachment B of the 2013 work plan with an asterisk if they were approved and not completed, instead of marking all approved audits the same to make it clear when the Audit Committee looks at the list which audits were delayed. Commissioner Albro stated that if an audit was not completed it does not need to be marked, but that it would be helpful if the list reflected the actual audits completed. In response to Ms. Gehrke, Ms. Kirangi stated the audits carried over from the previous year are taken into account when creating the plan for the next year.

**On motion by Commissioner Bryant, seconded by Commissioner Albro, the 2013 Internal Audit work plan was approved.**

**Reminder of Audit Committee meeting schedule for 2013:**

Mr. Barnard noted that in 2013 the Audit Committee will be meeting the first Tuesday of every other month starting on February 5.

**Adjournment:**

There being no further business, the special meeting was adjourned at 10:38 a.m.

Tom Albro

Minutes approved: February 5, 2013