

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

Date of Meeting December 11, 2012

DATE: December 5, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tom Barnard, Research and Policy Analyst

SUBJECT: Audit Committee and Internal Audit Department Charters and update for 2012

ACTION REQUESTED:

Request the Port of Seattle Commission to approve the Audit Committee Charter and the Internal Audit Department Charter

SYNOPSIS:

The Port of Seattle Audit Committee has reviewed these documents and requests approval from the Port of Seattle Commission for a revised Audit Committee Charter, as well as approval of an Internal Audit Department Charter. Both Charters are reviewed below.

In addition, the Audit Committee is required to present a periodic review of its accomplishments to the Commission. The period covered for this briefing is from January 2012 through December 2012.

That review will cover the following activities:

- Highlights of twenty-one Internal Audit reports reviewed by the Audit Committee, including the potential recovery of \$1.6 million from lease and concession audits
- Other work reviewed by the Audit Committee

AUDIT COMMITTEE CHARTERS FOR COMMISSION APPROVAL

As part of proposed changes to the program and work of the Audit Committee, Commission approval is being sought on the following documents:

Internal Audit Department Charter

In August 2012, the Internal Audit Department underwent a peer review by the Association of Local Government Auditors (ALGA), which was reviewed by the Audit Committee at its September 11, 2012, meeting. The Internal Audit Department was found to be in full compliance

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with Government Auditing Standards issued by the Comptroller General of the United States. The Internal Audit Department has been conducting audits under these standards. These are commonly known as the “yellow book” standards, and are used as the standard for government audit departments. The department was also found to be substantially compliant with International Standards for the Professional Practice of Internal Auditing issued by Institute of Internal Auditors, commonly referred to as the “red book” standards, which are commonly used in the private sector. Although the Internal Audit Department did not conduct audits under these standards, the peer review was performed at the request of the Audit Committee who wished to use the results as a tool for better understanding the audit function.

A recommendation was made by the peer review team that the Internal Audit Department be compliant with both sets of standards, or become an “orange book” shop. Such shops operate on a more accountable overall standard of auditing. Given both the already high level of Audit Department proficiency and the limited effort it would take to achieve the “orange book” standards, the Audit Committee and Internal Audit Department agreed to make this change. As part of meeting those standards, the Internal Audit Department needed to obtain Commission approval for its charter, as mandated by “red book” standards. The Audit Committee has discussed the charter and recommended for approval by full Commission at its December 4, 2012 meeting. It should be noted that the Internal Audit Department has had a substantially similar charter that it has followed internally prior to this.

Revised Internal Audit Charter

Once the Internal Audit Charter language was reviewed, there remained the task of insuring that the Audit Committee Charter was brought into alignment with it. In reviewing that document, it became apparent that some terminology needed to be revised for greater accuracy and clarity.

The major change to the Charter was to clarify the language on oversight by the Audit Committee over the Internal Audit Department. This includes:

- Formally approve the Director of Internal Audits annual audit plan. The annual plan includes which operations, departments, vendors, agreements, and leases are to be audited during the coming year.
- Review the Internal Audit Department staffing needs.
- Review and recommend Commission the Internal Audit Department’s annual budget to the Commission.
- Make recommendations to the Commission on the appointment, replacement or dismissal of the Internal Audit Director or any external auditors.

It should be noted also that there was a further alignment made with the Commission by-laws, through passage of Resolution No. 3672, on December 4, 2012. The Resolution called for an

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addition to Article II, Section 1, as Clause K, the following sub-section , which reads:
“Approve the Audit Committee Charter and the Internal Audit Department Charter.”

AUDIT COMMITTEE ACHIEVEMENTS FOR JANUARY 2012 - DECEMBER 2012:

Internal Audit conducts an annual risk assessment of Port activities at various levels to prepare a work plan for the upcoming year. Following approval of the work plan by the Audit Committee, Internal Audit conducts audits throughout the year. Audits are risk-based and designed to provide value through an independent and objective review in the areas of Controls, Governance, Risk Assessment, and Compliance.

The Audit Committee reviewed twenty-one audit reports prepared by the Internal Audit Manager during the January-December 2012 period, which covered nine meetings of the Audit Committee. These include:

- Ten Lease and Concession Audits, including:
 - Cruise Terminals Of America (CTA)
 - Emerald Cove Catering (Lease And Concession)
 - Simply Wheelz Rent-A-Car
 - Republic Parking At Pier66
 - Airport Management Services (Hudson)
 - National Rent-A-Car
 - Budget Rent-A-Car
 - Avis Rent-A-Car
 - Alamo Rent-A-Car
 - Doug Fox Parking
- Five Comprehensive Operational Audits, including:
 - Risk Management
 - Real Estate Division Portfolio Management
 - Noise Program
 - Ground Transportation
 - Air Terminal Operations
- Six Limited Operational Audits, including:
 - ABM Janitorial Contract

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- Procurement Card Policy
- Delegation Of Authority
- Corp. Cost Allocation
- Compliance Cost Of CPO Series Policies/Procedure
- 3Rd Party Administration

In performing these audits, the Internal Audit Department recommended to management the recovery of over \$1.6 million from the following lease and concession reviews. These suggested recoveries represent revenues to the Port that would have continued to be missing each year, had it not been for the Internal Audit reviews.

- Airport Management Services
- Alamo Rent-A-Car
- Cruise Terminals Of America
- Doug Fox Parking
- Simply Wheelz Rent-A-Car
- Republic Parking At Pier66

The Audit Committee also reviewed:

- Two external audits, including the Comprehensive Annual Financial Review (CAFR) Audit for 2011, and a State Auditor's Office (SAO) accountability audit.
- An entrance conference for an external consultant to conduct the Enterprise Technology Performance and Risk Assessment engagement, which will provide a detailed 3-year IT audit plan for the Internal Audit Department to carry out.

Finally, the Audit Committee structure was strengthened by adding an alternate member, to be present in the event that a Commissioner serving on the Committee is unable to attend, as two Commissioners are needed to constitute a quorum.

BACKGROUND:

The Audit Committee was created to “represent the Commission and have review and oversight authority on matters relating to the Port's auditing process and procedures.” Its main tasks are to:

- Review and recommend to the Commission the independent auditors to be selected to audit the financial statements, the federal grant and Passenger Facilities Charge programs of the Port of Seattle, and other audit services;

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- Meet with independent auditors and financial management to review proposed audits for the current year and review such audits at their completion, including any recommendations of the independent auditor;
- Review the adequacy and effectiveness of the accounting and financial controls of the Port of Seattle, and recommend improvement of such internal controls or establish new controls, assisted by the independent auditors, the Internal Audit Manager, and Port staff; and
- Perform oversight over periodic independent performance audits to be conducted on the Port of Seattle, and report the results of such audits to the Commission when completed.

OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:

- Internal Audit Department Charter
- Audit Committee Charter