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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 JANUARY 10, 2012**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, January 12, 2012, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members Commissioner Albro, Commissioner Holland, Christina Gehrke, and Alternate Member Commissioner Tarleton were present, as well as Tay Yoshitani, Chief Executive Officer; Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Bill Fovargue, 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 9:03 a.m. by Commissioner Albro.

Approval of Audit Committee Meeting Minutes of December 6, 2011:

On motion by Commissioner Tarleton, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of December 6, 2011, were approved.

[Lease and Concession Audit – Cruise Terminals of America:](#)

At the discretion of the Chair, public comment was received from Daniel Blackmore from Cruise Terminals of America (CTA) regarding the findings of the CTA lease and concession audit dated January 6, 2012. Mr. Blackmore submitted written testimony, which is, by reference, made a part of these minutes, is marked [Exhibit A](#), and is available for inspection in Port offices.

Ms. Kirangi noted the focus of the audit was to determine whether CTA complied with the terms of their lease and concession agreement with the Port. She stated that the lease agreement began in 2006 and is still in effect and that the audit covered the years 2009 and 2010. Ms. Kirangi noted that the lease agreement is complicated and the concession payment is calculated on a tiered basis. In addition, the agreement allows for some expenses to be shared between the Port and CTA, which can be deducted from the concession payment, and are referred to as allowable expenses.

Ms. Kirangi reported that it is clear in the lease terms that the revenue used to determine the concession is gross revenue and not net revenue; gross revenue includes revenue that comes from the parking operator. The Internal Audit department found under-reporting to the Port of approximately \$690,000; with interest and audit costs the total owed comes to \$1 million. Ms. Kirangi reiterated that the audit only covered the years 2009 and 2010 and recommended reexamining the years 2006, 2007, 2008, and 2011 to see what the under-reported amount is for those years.

Ms. Kirangi stated the second finding is a legal issue. The comprehensive lease agreement clearly defines the owners of CTA, one of which is SSA Marine Inc. (Stevedoring Services of America). Ms. Kirangi noted that allowable expenses are not to include payments to an affiliate or qualified person as defined in the lease. She pointed out that in 2009 the cruise operations moved to Terminal 91 from Terminal 30, at which point SSA started providing shuttle services for passengers. Ms. Kirangi stated that it is not documented that CTA received approval from the Port to use SSA for the shuttle service. Ms. Kirangi recommended that the Port should consider whether the costs for the shuttle services are allowable under the terms of the lease agreement.

The Internal Audit department found that management failed to properly assess the risks in the lease and monitor them. Ms. Kirangi noted the system used for monitoring the lease was not effectively designed. In response to Ms. Gehrke, Ms. Kirangi stated that the issue with management oversight of leases does not appear to be a broader Port issue. She remarked that the inherent risk in the agreement is that it relies on self-reporting by the tenant.

Mr. Yoshitani noted that when the original agreement with CTA was signed, cruise operations were at Terminal 30, and operations have since moved to Terminal 91. SSA is unique in that it has a contract with the Pacific Maritime Association, which allows SSA to hire International Longshore and Warehouse Union (ILWU) workers. He stated the work was performed by the ILWU because shuttle service is under their jurisdiction. He noted that when cruise operations were at Terminal 30, shuttle service was not needed. He emphasized that it was the Port's decision to move the cruise operations to Terminal 91 so that Terminal 30 could be used for cargo operations. Mr. Yoshitani stated the lack of documentation for Port approval was an oversight. He stated the Port will negotiate a settlement with CTA that is fair to both parties and that although the agreement is clear, an element of fairness should be applied. He added it seems clear that both parties understand the findings of the audit and what needs to be corrected going forward.

Commissioner Tarleton stated that the ongoing discussion between management and CTA demonstrates a foundation for reaching a settlement.

Commissioner Albro noted that management agreed with the financial findings of the report, and acknowledged Mr. Yoshitani's comments that an element of fairness needs to be applied when determining an appropriate settlement. Commissioner Albro noted his concern that the element of fairness is not memorialized in any documentation. He proposed accepting the submitted audit report as an interim report, and at the next meeting accept a final report with a more comprehensive management response, that also addresses some of the items CTA brought up in the letter submitted to the committee (exhibit A), particularly the items regarding the change in the facility, the need to add shuttle services, the issue of jurisdiction in terms of labor, and on-going management meetings with CTA. Commissioner Albro also suggested clarifying the CTA lease agreement for the current operating environment through 2019 to eliminate future confusion.

Mr. Barnard suggested giving the responsible parties three months before returning to the committee, noting that the legal issues and the lease are complex, as is the management response. Three months would allow for a more complete response. Commissioner Tarleton voiced her support for Mr. Barnard's suggestion, and for reviewing and clarifying the terms and conditions of the lease so the terms and conditions reflect the current situation of cruise operations at Terminal 91.

Commissioner Albro concurred with Mr. Barnard's suggestion and requested another report on the CTA audit in three months. In addition he accepted the audit report as an interim report and asked that a final report with a more comprehensive management response be submitted for the record at the next meeting in order to incorporate elements of the conversation.

Commissioner Tarleton suggested that Mr. Yoshitani's prior comments be incorporated into the final report and be considered part of management's response.

Lease and Concession Audit – [Simply Wheelz](#):

At the discretion of the Chair, a written report was accepted in lieu of a staff presentation on the Lease and Concession Audit for Simply Wheelz, covering the period of May 1, 2009, to October 31, 2010. The purpose of the audit, as reported, was to determine the following:

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

The report included no findings of significance, and there was no discussion of this agenda item.

Lease and Concession Audit – [Emerald Cove Catering](#):

At the discretion of the Chair, a written report was accepted in lieu of a staff presentation on the Lease and Concession Audit for Emerald Cove Catering, covering the period of September 23, 2009, to September 30, 2011. The purpose of the audit, as reported, was to determine the following:

- The concession revenue was complete, properly calculated, and remitted timely to the Port.
- The concessionaire complied with significant provisions of the lease and concession agreement.

The report included no findings of significance, and there was no discussion of this agenda item.

Limited Operational Audit – [Airport Building Maintenance Janitorial Contract](#):

Mr. Fovargue stated that Airport Building Maintenance (ABM) provides over 90 percent of the janitorial work at the Airport, and contracts with three small businesses. He stated the purpose of the audit was to determine whether management has adequate and effective monitoring over the financial and performance management of the contract. He noted that the contract stipulates a flat monthly rate to be paid to ABM, although the contract allows for prevailing wage increases, and change orders. Mr. Fovargue stated the audit was focused on the performance portion of the audit. Mr. Fovargue listed the two audit findings as follows:

- The current contract lacks standards, metrics, and measures.
- The agreement has not been implemented consistently.

In response to Commissioner Albro, Mr. Fovargue clarified that metrics includes items such as the degree of cleanliness, the number of times an area is cleaned, and number of complaints. Mr. Fovargue noted that ABM submitted reports to the Port; however, there was no independent review by the Port, so reliance was placed on the system used by ABM to monitor. Commissioner Tarleton noted that system is similar to the self-reporting system used in lease agreements.

Commissioner Albro asked why the monthly billing went up by 13 percent and the number of ABM work hours went down by 12 percent over the same period. Mr. Fovargue noted that there were change orders, such as when the link light rail came into the contract, which increased the monthly payment from the Port to ABM. He acknowledged that there is still gap analysis needed as to why the number of employees decreased as work increased. Commissioner Albro noted that the number of reported ABM hours worked may not include the hours worked by subcontractors.

Mr. Barnard asked if the Committee would like a report in 90 days to answer remaining questions. In response, Commissioner Albro stated that a followup report would not be necessary.

Commissioner Holland was present from 10:00 a.m. through the rest of the meeting.

Approval of Peer Review for Internal Audit Department:

Ms. Kirangi noted that the Internal Audit department is preparing to undergo a peer review. The Internal Audit department requests that the Association of Local Government Auditors (ALGA) conduct a review in accordance with the Government Accountability Office's Government Auditing Standards (Yellow Book). She noted that the committee requested more information on the scope of work for a Yellow Book review as well as for an International Standards for the Professional Practice of Internal Auditing (Red Book) review. Ms. Kirangi asked how the Committee would like to proceed. Commissioner Albro voiced concern about the peer review not starting until the fourth quarter. Ms. Kirangi responded that the Internal Audit department is ready, but the timing of the review depends on when the ALGA is available to perform the peer review. In response to Commissioner Albro, Ms. Kirangi stated that the Committee cannot direct what the ALGA includes in the peer review, only which review the ALGA will conduct. The Internal Audit department would contact the ALGA, after which the ALGA would put the Internal Audit department in the queue and send representatives from the agency to execute the peer review program.

Ms. Kirangi stated that the work of the Internal Audit department has been done in accordance with the Yellow Book, which is why the Internal Audit department suggests having a Yellow Book review. She noted that the Committee could elect to conduct a Red Book peer review in addition to the Yellow Book review; however, the Internal Audit department has not been preparing for a Red Book review. In response to Ms. Gehrke, Ms. Kirangi confirmed that there are best practices in the Red Book that the Internal Audit Committee uses. Ms. Gehrke clarified that the Internal Audit department is not prepared for a full peer review on the Red Book. Ms. Gehrke suggested using the Red Book audit as a benchmarking tool for when the committee considers adapting portions of the Red Book.

Commissioner Tarleton stressed the importance of the Red Book being used only as an evaluation for how the Audit Committee might want to proceed, not as an evaluation of how the Internal Audit department has been performing. Ms. Kirangi clarified that the Red Book would be used as a tool for assessment on how the Audit Committee might like to proceed in instituting Red Book standards, but not to evaluate how the Internal Audit Department is performing. Commissioner Albro proposed engaging the ALGA for Red Book and Yellow Book peer review. Commissioner Albro stated that he is looking at the peer review as a way to assess the comprehensive auditing function at the Port to see that Commission directives and policies are carried out and not just to look at the Internal Audit department performance. Mr. Yoshitani clarified that the Committee needs to decide which elements of the Red Book on top of the Yellow Book it would like to incorporate. He noted the review should help inform the decision of how the Committee wants to operate in the future, but not evaluate how the department has performed in years past. Ms. Gehrke stated the Committee doesn't know what areas of the Red Book should be adopted and it would be good to know where the Internal Audit department is relative to the standards because there is overlap. She noted the peer review would be used as a tool to see how far out of compliance with the Red Book the Internal Audit department really is, which the Committee could use to identify where changes would need to be made if they wanted to adopt that portion of the Red Book going forward. She emphasized that only the Yellow Book would be used to evaluate the work performance of the Internal Audit department. In response to Mr. Barnard, Ms. Kirangi stated that a Yellow Book peer review should only take a week; with the addition of the Red Book it might be a few more days.

Commissioner Tarleton requested the following items from the Red Book be used for benchmarking:

- Internal and External assessments;

- Governance, risk management, and control;
- Engagement objectives, scope, resource allocations, work programs, and supervision; and
- Engagement disclosure of nonconformance with the standards.

Commissioner Albro asked for a status update, including the timing for the work at the next committee meeting.

2012 Proposed Internal Work Plan:

Mr. Hutchinson stated that the work plan for 2012 includes nine lease and concession audits; seven limited operational audits; six comprehensive operational audits; two third-party management audits; and one key processing system audit. He noted that in prior years the majority of the internal audit work plan has included lease and concession audits, whereas the 2012 work plan includes only about 30 percent lease and concession audits. Commissioner Tarleton voiced support for the air terminal operation comprehensive operational audit in the 2012 work plan because of the airline realignment program, which is underway at the Airport.

Ms. Gehrke stated that she liked the pie charts in the proposed work plan document and asked to have, in a couple months, a chart of all the areas that high risk and the coverage of the high risk areas.

Commissioner Albro asked that change be identified as a risk in itself that should be taken into account when items are scored as part of the risk assessment.

In response to Commissioner Albro, Ms. Kirangi noted the delegation of authority review is a limited operational audit. Mr. Barnard noted that there are changes being made to the delegation of authority resolution in 2012. He asked if the current resolution is the basis for the audit or if the audit would be on the revision of the resolution, and what the audit would contain. Commissioner Albro asked to have the delegation of authority audit completed before the delegation of authority revisions, and to be top priority in 2012.

On motion by Commissioner Holland, seconded by Commissioner Albro, the Internal Audit work plan for 2012 was approved. Commissioner Tarleton abstained.

Preliminary Scope Discussion for IT Risk Assessment and Performance Audit

Mr. Thomas stated there are two primary components of the Information Technology audit. The first is the risk assessment and the second is the performance audit. The draft scope of work has been reviewed with the Information and Communication Technology governance board as well as with Mr. Yoshitani. The audit is broken out into major categories that include: strategy, operations and investment, governance, and risk management. Ms. Kirangi stated that the request for proposal process has already begun. Ms. Gehrke suggested adding a three-year audit work plan, including staffing and outsourcing the internal audit work in technical areas.

Adjournment:

There being no further business, the special meeting was adjourned at 10:57 a.m.

Bill Bryant

Minutes approved: March 6, 2012