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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 MARCH 6, 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; Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Mike McLaughlin, Director of Cruise and Maritime Operations; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 9:05 a.m. by Commissioner Albro.

Commissioner Albro welcomed Commissioner Bryant as the new member of the Audit Committee.

Approval of Audit Committee Meeting Minutes of January 10, 2012:

On motion by Commissioner Bryant, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of January 10, 2012, were approved.

Lease and Concession Audit – Reissued Cruise Terminals of America:

Mr. McLaughlin noted the financial reporting problem that was identified in the audit has been corrected. He reported that since the audit was reported at the January 10, 2012, Committee meeting, Cruise Terminals of America (CTA) and the Port of Seattle are close to finalizing a settlement agreement that is considered fair and reasonable to both parties, and will be brought before the full Commission.

Comprehensive Operational Audit – Aviation Noise Programs:

Mr. Hutchinson stated that an important aspect of the risk assessment is the work of other auditors. He noted during one of the weekly updates by the State Auditor's Office (SAO) during the SAO's 2011 performance and accountability audit of the Port the Internal Audit department became aware of some concerns with Aviation Noise Programs' monitoring procedures. He commented that those concerns became a factor when performing the risk assessment to determine which audits to complete in 2012. Mr. Hutchinson stated the audit objectives as follows:

- Monitoring of approved programs from the 2002 Part 150 Study is effective in the following specific areas:

- ▶ Expenditures by the Noise Programs department for residential and school insulation programs are appropriate and accurate;
- ▶ Processing of applications for residential insulation is efficient and timely; and
- ▶ The current Part 150 Study professional services contract payments are in compliance with the scope and deliverables; and
- The funds from the Port's tax levy contributed to Aviation High School are effectively monitored.

Mr. Hutchinson noted that the department has adequate controls in regard to the Part 150 study, but the funding efforts relating to Aviation High School were found to be inadequately monitored. He stated that because the SAO has already reported on the finding the Internal Audit department is not repeating the finding. In response to Commissioner Bryant, Mr. Hutchinson clarified that there needs to be a better system for monitoring funds given to Aviation High School in the future, but there was no finding of misappropriation of funds. Commissioner Albro asked what monitoring system was in place and what effective monitoring would look like. Mr. Hutchinson noted that the funds were transferred to the district, but there was no follow-up on whether the funds were spent appropriately. Mr. Yoshitani stated the finding has implications for future money transfers to other projects, such as the Alaskan Way Viaduct. He noted that future investments by the Port will need to have clear expectations on how the money will be spent and need to be monitored accordingly. Commissioner Albro stated future agreements should include how the funds will be monitored and a solution in the event that intent of the agreement is not met.

Update on Peer Review for Internal Audit Department:

Ms. Kirangi reported that the Internal Audit department follows the Government Auditing Standards (Yellow Book). She stated that the Association of Local Government Auditors (ALGA) has been contacted to conduct the peer review. The ALGA will conduct two peer reviews, a Yellow Book review and a review in accordance with the International Standards for Internal Auditing (Red Book). She noted that the Yellow Book review will be used to evaluate the performance of the Internal Audit department, whereas the Red Book review will be used as a tool when the Committee considers adopting portions of the Red Book standards. Ms. Kirangi reported that the Internal Audit department is on the schedule for the ALGA to perform the review in July. In response to Commissioner Albro, Ms. Kirangi stated that there will be one team from the ALGA that will conduct both reviews simultaneously, but there will be two separate letters. She noted that the review will take about a week. Ms. Kirangi stated that the ALGA should be able to report back in August.

Update on RFP for Enterprise Technology Risk and Performance Assessment:

Ms. Kirangi noted that the Internal Audit department does not have the internal expertise to complete an Enterprise Technology Risk and Performance Assessment, so the department is working with the Central Procurement Office to hire an outside consultant to perform the work. She stated that the scope of work had previously been approved by the committee. She reported that a request for proposal was advertised and the responses are due March 15, 2012. Ms. Kirangi responded to Commissioner Albro that the Internal Audit department will be back to brief the Committee and recommend a consultant for selection in either April or May.

Discussion of Internal Audit Department Charter:

Mr. Barnard presented the current version of the Internal Audit department charter and noted that the charter is for the Internal Audit department, not the Audit Committee. Commissioner Albro commented he

would like to have the results of the peer review before discussing the Internal Audit department charter in depth as the peer review will inform the content.

Ms. Kirangi stated that the Internal Audit department has been using the charter for several years, although it has never been formally adopted by the committee. She noted the Yellow Book does not require a charter, but the Red Book does require internal audit departments to have a charter. Ms. Kirangi commented that the Internal Audit department charter does not contradict the Audit Committee charter. Commissioner Albro reiterated that he would like to make sure the charter included input from the peer reviews. Ms. Gehrke asked if management has reviewed the charter. Ms. Kirangi responded that the charter hasn't been shared as a separate document with management.

Adjournment:

There being no further business, the special meeting was adjourned at 9:40 a.m.

Bill Bryant

Minutes approved: May 15, 2012