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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING FEBRUARY 10, 2015**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, February 10, 2015, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Albro, Commissioner Creighton, and Christina Gehrke. Also present were Ted Fick, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Colleen Wilson, Chief of Police, Tom Barnard, Research and Policy Analyst; and Amy Dressler, Assistant Commission Clerk.

Call to Order:

The committee special meeting was called to order at 9:02 a.m. by Commissioner Creighton.

Approval of Audit Committee Meeting Minutes of October 21, 2014:

On motion by Commissioner Albro, seconded by Commissioner Creighton, the minutes of the Audit Committee special meeting of October 21, 2014, were approved.

Without objection, the following item-

Update – Follow up on the Recommendations of the 2014 Internal Audit Report of Police Forfeiture Funds

-was postponed until later in the meeting.

Required Annual Communication to the Audit Committee--

The Committee received a [presentation](#) from Ms. Kirangi that contained the following information:

- The Internal Audit charter is current and reflects current Internal Audit Department practices.
- The Internal Audit Department has organizational independence, reporting functionally to the Audit Committee and administratively to the Chief Executive Officer.
- Adequate quality assurance has been implemented in all internal audit activities, as evidenced by a 2012 external peer review. A second peer review is scheduled for 2015.

Ms. Kirangi announced that Internal Audit was selected to host an annual conference for the Association of Airport Internal Auditors in 2016. Commissioner Albro congratulated staff for bringing economic development to the region through this action.

Lease and Concession Audit – Gate Gourmet, Inc.:

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Gate Gourmet, Inc., covering the period of January 1, 2011-December 31, 2013. The purpose of the audit, as reported, was to determine whether:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port; and
- The Port and lessee complied with significant provisions of the Lease and Concession Agreement, as amended.

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

Lease and Concessions Audit – Thrifty Rent-a-Car:

The Committee received a [presentation](#) from Mr. Hutchinson that included the following information:

- This audit reviewed information for the period of November 1, 2010 to May 16, 2012.
- The purpose of the audit was to determine whether the reported concession fees were complete, properly calculated, and remitted timely to the Port, that The Port and Lessee complied with provisions of the Rental Car Lease and Concession Agreement, as amended, and that Customer Facility Charges (CFCs) were properly collected and remitted timely to the Port.
- The audit found that gross revenues were underreported because of a service charge on tolls, tickets, and other expenses billed to customers, which was not reported to the Port as revenue.
- The audit found that approximately \$37,000 in CFCs were underreported to the Port due to a miscalculation related to time-stamping. The resolution and lease agreement clearly state that the CFC must be calculated based on a rental period that has been rounded up to the next number of days. There is a one-hour grace period, but it is limited to exactly one hour. (e.g., A 26-hour rental is a two-day rental for the purposes of correctly calculating CFCs, even though the rental car company may only charge the customer for one day.)

The committee then advanced to consideration of:

Update – Follow up on the Recommendations of the 2014 Internal Audit Report of Police Forfeiture Funds

The Committee received a presentation from Chief Wilson that contained the following information:

- The purpose of this report was to inform the Audit Committee that all the recommendations made in the 2014 Audit Report of Police Forfeiture Funds.
- Expenditures were legitimate and appropriate from either the federal or state fund, but there was an issue with articulating which fund should be used. This has been clarified.
- Controls on expenditures have been more clearly defined.

Commissioner Creighton asked about the Port Police Department's authority to seize property of perpetrators that is not located on Port property. Chief Wilson replied that proceeds from narcotics operations can be seized, pending a hearing process during which the seizure can be appealed. With a warrant, homes can be searched, but that is not something Port Police would typically do. Most federal seizure dollars are the result of participation in Drug Enforcement Agency task forces.

Limited Operational Audit – SLOA III Airline Agreement – Compliance with Calculation of Rates and Charges:

The Committee received a [presentation](#) from Mr. Nancekivell that included the following information:

- SLOA rates are calculated at the beginning of the year based on estimates, which are then reconciled with actual costs at the end of the year.
- The purpose of this audit was to determine whether management controls are adequate to ensure that rates charged are accurate and in accordance with the agreement terms and conditions, and that the 2013 year-end airline reconciliation and settlement, including revenue sharing, was accurate and in accordance with the agreement terms and conditions.
- The period of January 1, 2013 to December 31, 2014 was examined.
- There were no reportable findings.
- During the course of the audit, it was noted that Aviation Finance & Budget implemented numerous complex rate calculations, performed year-end settlement on schedule, and accomplished a large number of tasks within a short time frame.

Commissioner Creighton noted that the SLOA agreement is one of the most important contracts the Port has. He noted his appreciation for the complicated nature of this audit, and with the lack of findings.

Limited Operational Audit – Examination of Management’s Assertions Related to Airport Dining and Retail Program (ADR) at Sea-Tac International Airport:

The Committee received a [presentation](#) from Ms. Kirangi that included the following information:

- The purpose of this audit was to examine management assertions related to the Airport Dining and Retail Program at the airport.
- This report is required because the Internal Audit is accountable for the Audit Committee for any work they are engaged to do. This work was done at the request of the Office of Social Responsibility (OSR).
- An independent report was created in January, 2015, which will be used by OSR to complete work requested by the Commission.

2015 Audit Work Plan Update:

The committee received a presentation from Ms. Kirangi and Mr. Hutchinson that included the following information:

- The work plan is compiled by meeting annually with stakeholders, including the CEO, Commission, and department directors, to see where risk is anticipated.
- These meetings, along with the pattern of prior audits, supplemented with data analysis, are used to determine where Internal Audit time should be spent over the next year.
- The work plan is flexible to accommodate Audit Committee input and requests.
- Focus is shifting in 2015 from leases to department operations.
- Audit of the payroll department, though delayed in prior years due to staffing challenges, will be conducted in the latter part of 2015.
- Once timelines have been more firmly established, a follow-up report will be provided.

Commissioner Albro called attention to the fact that the newly adopted Airport Dining & Retail Policy motion includes specific direction to Internal Audit to ensure compliance with policy guidance. He spoke

about the potential for the Internal Audit to help enforce compliance with Commission policy direction more broadly. Ms. Kirangi replied that Internal Audit staff monitors Commission meetings in order to be aware of direction to Port staff. Mr. Hutchinson stressed the importance of specific, granular direction from the Commission in order to assist audit efforts and produce a more meaningful audit product. Currently, discussion has not been incorporated into the workplan. Commissioner Creighton recommended that Internal Audit meet with the Commission to discuss what is desired, and define success. Commissioner Albro suggested that this would be an appropriate activity for the Audit Committee.

Ms. Gehrke expressed her concern that budget and staffing levels are compatible with the work plan. Ms. Kirangi indicated that the work plan was created with attention to the resources available. Ms. Gehrke also requested that further context be provided in the work plan document for removals from the work plan.

On motion by Commissioner Albro, seconded by Commissioner Creighton, the 2015 Internal Audit Work Plan was approved.

Adjournment:

There being no further business, the special meeting was adjourned 9:54 a.m.

Tom Albro
Secretary

Minutes approved: May 7, 2015.