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APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING MAY 7, 2015

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, May 7, 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 Dan Thomas, Chief Financial Officer; Jack Hutchinson, Internal Audit Manager; Mark Reis, Managing Director, Aviation; Luis Navarro, Director, Office of Social Responsibility; Laurie Tish, Partner, Moss Adams; Tyler Raparuk, Assurance Manager, Moss Adams; Ruth Riddle, Senior Internal Auditor; Brian Nancekivell, Senior Internal Auditor; Lisa Lam, Assistant Director, Accounting and Financial Reporting; Tom Barnard, Commission Research and Policy Analyst; and Paul White, Commission Clerk.

Call to Order:

The committee special meeting was called to order at 9:10 a.m. by Commissioner Creighton.

Approval of Audit Committee Meeting Minutes of February 10, 2015:

The minutes of the Audit Committee special meeting of February 10, 2015, were approved.

External Audit – Moss Adams Exit Interview

The Committee received a [presentation](#) from Ms. Tish and Mr. Reparuk that contained the following information:

- The audit is complete, and proceeded in accordance with the audit plan presented to the Audit Committee on October 21, 2014.
- An unmodified opinion was issued on the Enterprise Fund and Warehouseman's Pension Trust Fund, which collectively comprise the financial statements of the Port of Seattle. This opinion includes a Report on the Schedule of Net Revenues Available for Revenue Bond Debt Service, covering data for the past five years.
- The single audit report on internal control and compliance over federal reporting had one finding of deficiency relating to a vendor-supplied ancillary operating system. Moss Adams found management's response to this finding to be appropriate.
- There were no findings related to major Federal Award Programs or The Schedule of Expenditures of Federal Awards.
- There were no findings relating to the receipts and expenditures of Passenger Facility Charges.
- The three federal programs tested this year were the Airport Improvement Program, Law Enforcement Office Reimbursement Program, and Highway Planning & Construction. No issues were found relating to these programs.

- Ms. Tish provided the Required Annual Communications, and noted that the collaborative environment, which included weekly meetings between auditors and Port staff, contributed to the success of the audit.
- In response to a question about a \$27 million reduction in environmental remediation liability in the Draft Comprehensive Annual Financial Report, Ms. Lam informed the committee that reductions are the result of cash payments made during 2014, as well as adjusted estimates.
- In response to a question about a lack of principal payments on subordinate lien debt, Mr. Thomas explained that because of low interest rates, the best strategy has been to set aside money flagged for principal payments in a separate fund. A portion of that principal will be paid in 2015.

External Audit – FAA ACDBE Compliance Review

The Committee received a [presentation](#) from Mr. Reis and Mr. Navarro that contained the following information:

- In March, the FAA audited the Airport Concessions Disadvantaged Business Enterprise (ACDBE) and airport Disadvantaged Business Enterprise (DBE) programs.
- For the ACDBE portion, two paperwork items were noted: the CEO signature on documentation needs to be updated and an official request for a waiver regarding sole-source activity for luggage cards and airport advertising needs to be obtained.
- The airport does not have ACDBE participation from rental car companies; however, there are no certified ACDBE rental car companies in Washington state.
- The FAA commended the ACDBE program, but identified opportunities for improvement in the outreach and transparency regarding the goal-setting process.
- The FAA recommends that the Port move from a race-neutral DBE program to a race-conscious DBE program as a result of the 2014 Disparity Study.
- An increased amount of proactivity is recommended relating to monitoring of prime contractor payment and retainage. Currently, the Port relies on subcontractors to complain of non-payment, which is not sufficient.

Lease and Concession Audit – Flying Food Group LLC:

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Flying Food Group LLC, covering the period of January 1, 2011, to 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 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.

Limited Operational Audit – Ground Transportation:

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

- This audit reviewed information for the period of January 1, 2013, to December 31, 2014.
- The purpose of the audit was to ensure that all applicable tariffs are completely and accurately recorded, and that concession revenue is accurately and completely recorded.

- It was determined that there are adequate controls in place to ensure that all applicable tariffs and concession revenue is accurately and completely recorded. There are no reportable findings.

Limited Operational Audit – Survey and Mapping:

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

- Increased overtime activity in this department initiated a need to ensure that proper controls for overtime are in place.
- This audit reviewed information for the period of January 1, 2013, to December 31, 2014.
- The purpose of the audit was to determine whether management controls are adequate to ensure that non-regular payroll (second and third shift, and overtime) compensation is proper, and that travel expenses are appropriate and in compliance with Port policies.
- There was one reportable finding: department controls for overtime and travel expenses are not adequate.
- Pre-approval of overtime activity needs to be better documented. Overtime guidelines have since been implemented by the department.
- The extent of the overtime hours incurred was not sufficient to justify hiring further FTEs. The seasonal nature of much of this department's work further complicates the issue of staffing and work schedules.

Adjournment:

There being no further business, the special meeting was adjourned 10:08 a.m.

Tom Albro

Minutes approved: August 11, 2015