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## **APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING MARCH 19, 2018**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, March 19, 2018, in Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Felleman, Commissioner Steinbrueck, and Christina Gehrke. Also present were Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Ralph Graves, Senior Director, Capital Development; James Jennings, Senior Manager, Aviation Properties; Fred Chou, Capital Program Leader, Maritime; Stephanie Jones Stebbins, Managing Director, Maritime; Kenny Lyles, Director, Fishing and Commercial Operations; Kelli Goodwin, Manager, Maritime Operations; Jeff Hoevet, Senior Manager, Airport Operations, Landside; Aaron Pritchard, Commission Issues and Policy Manager; and Amy Dressler, Deputy Commission Clerk.

### **Call to Order:**

The committee special meeting was called to order at 1:05 p.m. by Commissioner Felleman.

### **Approval of Audit Committee Meeting Minutes of December 19, 2017:**

**The minutes of the Audit Committee special meeting of December 19, 2017, were approved.**

### **Approval of the 2018 Internal Audit Work Plan:**

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

- Audits held over from the 2017 work plan were completed by the end of February.
- Audits the committee was briefed about in December 2017 are currently progressing.
- Capital programs will be a part of audit plans going forward because an estimated \$4 billion in total project costs are expected through 2022.
- The airport's West Side Fire Station project is proposed for addition to the 2018 work plan because the budget increased from \$2.4 million to \$5.5 million during planning stages. Suns, Inc., is proposed to be removed from the work plan because it was audited under Host, Inc., in 2017. This will make room for the West Side Fire Station.
- Emphasis on Information Technology (IT) will increase in 2018, focusing on critical applications at the airport.
- 2018 IT audits will focus on the following:
  - Change management,

- Patch management, which is especially crucial to ensure that solutions for vulnerabilities revealed by security breaches are fixed in a timely manner,
- Data centers, and
- The T2 ParkingSoft System, which runs gates and revenue at the airport parking garage.
- A new internal staff position for IT audits will be filled shortly; this will provide consistency and bring expertise in house. The Port will also continue to use external firm Point B.
- Operational audits will include a look at the TNC (rideshare) Rematch program, focusing on metrics pertaining to vehicle emission reduction.
- Cruise capital will be added as an operational audit upon commission request, to examine the relationship between Port expenses and economic benefit to the region.
- A followup will be performed on 2017's audit of airport taxi and for-hire contractor Eastside For Hire, to ensure that all repayments due to drivers have been made.

**The 2018 Internal Audit Work Plan was approved.**

**IIA & GAO Standards Disclosures/Requirements:**

Mr. Fernandes delivered the following required annual communications:

- The Port of Seattle Internal Audit department maintains organizational independence by reporting functionally to the Audit Committee and administratively to the Executive Director.
- Quality assurance reviews are performed as required by the Institute of Internal Audit Standards and the Government Accountability Office.
- An update will be provided at the June Audit Committee meeting regarding management action plans, to ensure that any problems identified in prior audits have been addressed.

**Operational Audit – Delta Lounge – Tenant Reimbursement Agreement:**

The Committee received a presentation from Mr. Fernandes that included the following information:

- The purpose of this audit was to determine whether Port staff appropriately followed policies, procedures, and the Tenant Reimbursement Agreement (TRA) requirements.
- The audit covered the period of September 2015-January 2018.
- Port management and Delta complied with the terms of the TRA. However, it was noted that the agreement does allow for port involvement in the selection process for contractors, although the port remains financially liable for the costs from these decisions.

A management response was provided by Mr. Jennings and Mr. Graves that included the following information:

- Tenant reimbursement agreements are a key part of the Capital Program because tenants can perform work in a faster, more cost-effective way.
- Change orders go through the same approval process as Port construction projects.
- The issue with contract compliance on this project was not the lack of review, but the timing of review; the port rejected several scope changes and only paid for those that were landlord-related scope.

Committee members expressed concern about the process for addressing scope additions not approved by the port and the lack of document retention. They inquired about breaking projects into multiple authorizations to control scope changes. Mr. Graves indicated that further insertion of port staff into this process would result in a loss of efficiency.

**Limited Operational Audit – Pier 66 – Norwegian Tenant Improvement Partnership:**

The Committee received a presentation from Mr. Fernandes that included the following information:

- The purpose of this audit was to determine whether Port staff followed policies, procedures, and Lease Agreement requirements.
- The audit covered the period of August 2015-October 2017.
- The project was well managed, but it was found that complete change order documentation was not available.
- It was also found that independent estimates were not obtained.

An inquiry was made about the particulars of the loan and Norwegian Cruise Line's debt before the Port's portion was paid off. Mr. Fernandes and Mr. Graves will follow up with an answer.

**Operational Audit – Fishing and Commercial Operations - Maritime:**

The Committee received a presentation from Mr. Fernandes and Mr. Lyles that included the following information:

- The purpose of this audit was to determine whether the billing process operated effectively and efficiently, and whether customer billing was complete and accurate.
- Mapping the process in order to identify opportunities for improvement was the primary focus.
- The audit covered the period of January 1, 2016-September 30, 2017.
- Observation of the process revealed the following:
  - Counting of marine vessels, land vehicles, and storage facility use is currently a manual process that does not adequately capture revenue.
  - Documentation is performed through an inefficient, labor-intensive process.

Ms. Goodwin and Mr. Lyles provided the following management response:

- Staff turnover in the billing department at Terminal 91 has contributed to inefficient processes.
- Billing processes are a legacy structure in need of improvements and streamlining.
- Management is in agreement with Internal Audit's process improvement recommendations, and plans to obtain vessel management software.
- The return of the fishing fleet, which coincides with the end of cruise season, makes the management of dock space challenging. Staff is looking for ways to increase dock capacity in order to fulfill demand.

**Operational Audit – Employee Parking – Airport Garage:**

The Committee received a presentation from Mr. Chase and Mr. Hoebet that included the following information:

- The purpose of this audit was to evaluate internal controls and compliance with Port policy.
- The audit covered the period of November 1, 2015-October 31, 2017.
- More robust internal controls are needed to reduce the likelihood of errors and policy exceptions relating to terminated employees, unauthorized long-term parking, and contractors.
- Motorcycle parking policies and procedures need to be developed and consistently applied. Ground Transportation staff is working with Risk Management to develop proposals.

**Operational Audit – [Transportation Network Companies \(TNCs\)](#):**

The Committee received a presentation from Mr. Fernandes and Mr. Hoevet that included the following information:

- The purpose of this audit was to determine whether TNCs are in compliance with key terms of the concession agreement, including accuracy and completeness of revenue paid to the port.
- The audit covered the period of April 1, 2016-March 31, 2017.
- The TNC companies who contract with the Port are Raiser LLC dba Uber, Lyft, and Wingz.
- Revenue paid was materially complete, accurate, and paid timely. There were two issues found:
  - There were some discrepancies between trip information and Uber's list of drivers operating at the port, which resulted in a "self-identified" underpayment of \$30,045.
  - Many drivers do not present a valid King County decal, or TNC trade dress (logo) sticker. Although King County was behind on permit issuance during the audit period, drivers do not appear to have a sense of urgency to obtain and display this information.
- Geofencing and app controls prevent TNC drivers from bypassing the designated TNC pickup area. The \$30,045 discrepancy identified by Uber was a result of drivers who weren't picked up by the geofence.

**Limited Contract Compliance Audit – [Host International, Inc.](#):**

The Committee received a presentation from Mr. Chase that contained the following information:

- The purpose of this audit was to verify compliance with the key terms of the concession agreement with Host International.
- The audit covered the period of January 1, 2015-December 31, 2016.
- Concession fees were complete and accurate, but the targeted Disadvantaged Business Enterprise (DBE) participation goal was not achieved.
  - This goal indicates that 25 percent of revenue generated by the contract is to be earned by DBEs.
  - If underperformance on DBE goals is not rectified within 90 days, the port may issue a notice of default.
- Internal Audit recommends that alternate penalties for noncompliance be built into the contract. A proposal will be made by September 2018.
- Port management accepts responsibility to work with DBEs and Host in the future to monitor and work with concessionaires on correcting performance in order to reach the DBE goal.

**Adjournment:**

There being no further business, the special meeting was adjourned at 3:00 p.m.

Prepared:

Attest:

Amy Dressler, Deputy Commission Clerk

Fred Felleman, Committee Chair

Minutes approved: June 25, 2018.