



P.O. Box 1209  
Seattle, Washington 98111  
www.portseattle.org  
206.787.3000

## **APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING JUNE 25, 2018**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, June 25, 2018, in the 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; Olga Darlington, Audit Partner, Moss Adams, LLP; Lisa Dion, Senior Audit Manager, Moss Adams, LLP; Anna Waldren, Audit Senior, Moss Adams, LLP; Elizabeth Leavitt, Senior Director, Environment & Sustainability; George England; Senior Capital Program Leader, Aviation Project Management; Rudy Caluza, Director, Accounting and Financial Reporting; Duane Hill, Senior Manager, Disbursements; Jason Johnson, Aviation Property Manager; 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 1:07 p.m. by Commissioner Felleman.

### **Approval of Audit Committee Meeting Minutes of March 19, 2018:**

**The minutes of the Audit Committee special meeting of March 19, 2018, were approved.**

### **External Audit -- Port of Seattle 2017 External Financial Audit**

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

- Moss Adams has issued clean reports for all areas audited, including:
  - The Enterprise Fund.
  - The Warehousemen's Pension Trust Fund.
  - The Schedule of Net Revenues Available for Revenue Bond Debt Service.
  - Internal control and compliance over financial reporting.
  - Compliance related to major federal award programs.
  - The schedule of Passenger Facility Charge receipts and expenditures and related internal controls.
  - The Agreed Upon Procedures Report for the Washington State Department of Ecology.
- Areas of particular concentration included assessment of the internal control environment, management estimates, the Northwest Seaport Alliance joint venture, capital assets, Signatory Lease and Operating Agreement III, bond activity, revenue recognition, net position, information

technology general computer controls and Parkingsoft implementation, TSA surveillance, and checked baggage screening programs.

- Required communications pertaining to the performance of the audit.
- A summary of Government Accounting Standards Board (GASB) pronouncements. Most will be relatively low-impact to the Port. GASB 87, effective in 2020, affects leases. Management is planning ahead for implementation of this standard.

#### **Update – Comprehensive 2018 Audit Status**

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

- Internal audit work for 2018 is proceeding according to plan; there are no delays or proposed changes to the work plan.
- The recently-hired IT auditor will be completing one in-progress IT audit and will collaborate with external firms to perform the others.

#### **Update – Issue Follow-Up Process**

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

- Audit issues are generally being addressed in a timely and appropriate manner.
- There are some overdue issues that have explainable business reasons for delayed resolution.

#### **Update – Internal Self-Assessment**

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

- Internal review of the Internal Audit department's policies and operation procedures has been conducted according to Generally Accepted Government Auditing Standards (GAGAS) and International Professional Practices Framework (IPPF).
- Work papers from three 2017 audits were reviewed to evaluate compliance with GAGAS and IPPF, and it was determined from this sample that appropriate processes are in place.
- Some recommendations were made to streamline processes, conduct this review on an annual basis, and to document official approval of the work plan prior to beginning work.

#### **Update – Streamlined Limited Contract Compliance Report**

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

- The format of this report has been streamlined to include key findings only.
- Increasing the efficiency of this type of audit will allow for increased capacity.

#### **Operational Audit – North Satellite Airport Renovation and Expansion Project:**

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

- This expansion will cost \$758 million to increase the number of gates at the North Satellite from 12 to 20 gates and add retail and office space.
- The audit indicated that the letter of understanding issued to Alaska Airlines by the Port to assure alignment regarding scope was not adhered to. This resulted in changes that increased the cost of the project by approximate \$31.8 million and delayed the schedule by approximately 39 weeks.

- The audit also found that reimbursement process did not adequately ensure that the work reimbursed was aligned with the value received by the Port.
- The management action plan indicates that future projects will:
  - Require tenants to have sufficient in-house expertise;
  - Have an improved change-management process for Tenant Reimbursement Agreements;
  - Require changes in design, scope, and schedule to be undertaken only with a written agreement.
- The Port began developing all concepts for Port-owned facilities through on-call planning consultants in 2017, meaning that for future projects, tenants will not need to develop concepts on their own with the expectation of reimbursement.
- \$1.2 million will be recovered from Alaska for unauthorized changes.

Commissioners emphasized the need for scope changes for projects to Port-owned facilities to be thoroughly vetted through Port management prior to the performance of work and asked that legal policies and procedures concerning this process be robust and transparent.

**Operational Audit – Transportation Network Company (rideshare) Re-Match: Environmental Key Performance Indicator (E-KPI):**

The Committee received a [presentation](#) from Mr. Fernandes and Ms. Leavitt that included the following information:

- The purpose of this program is to reduce deadheading by allowing TNC cars dropping off outgoing passengers to pick up arriving passengers without waiting in the queue.
- E-KPI is a measurement tool for the environmental performance of TNCs in comparison to outbound taxis at the airport and is expressed in units of carbon emissions per trip.
- The audit found that although the Re-Match program reduces deadheading, greenhouse gases, and congestion on the airport drives, it results in TNCs serving the airport with a fleet of vehicles that do not meet the Port's environmental standards.
- Management's plan is to use the E-KPI approach review the overall TNC performance prior to signing any future long-term agreement. The current contract is month-to-month.

**Operational Audit – Disbursements/Accounts Payable:**

The Committee received a [presentation](#) from Mr. Fernandes, Mr. Caluza, and Mr. Hill that included the following information:

- This audit was to examine the performance of the COR360 accounts payable software implemented in early 2017.
- It was found that policies granting authority for approving invoice payments should be reviewed and documented as an executive policy.
- Internal control improvements were identified, including disabling unneeded user access and validating invoice accuracy.

**Limited Contract Compliance Audit – Sky Chefs Inc.:**

The Committee received a [presentation](#) from Mr. Fernandes indicating that there were no significant findings for this audit.

**Limited Contract Compliance Audit – CMC Investments Inc./Dollar Rent-A-Car:**

The Committee received a [presentation](#) from Mr. Fernandes, Mr. Chase, and Mr. Johnson that included the following information:

- It was found that \$343,326 in incidental gross revenues were not reported, resulting in \$34,333 in percentage fees owed to the port.
- It was found that the Customer Facility Charge was over-reported in the amount of \$19,596 due to an error in the concessionaire's calculations.

Management was asked to revise the action plan to indicate that this is a repeat finding. Repayment must be collected, and the underlying issue needs to be resolved.

Doris Cassan, President, CMC/Investments Inc./Dollar Rent-A-Car, provided her response and a written statement, which is included here as minutes Exhibit A.

**Limited Contract Compliance Audit – Beecher's Handmade Cheese:**

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

- A change in the point-of-sale system caused source documentation to be unavailable for some of the audit period. Data was provided via an Excel file instead.
- Management has reiterated to Beecher's the requirement that register z-tapes be retained in their original format. This will be communicated to other airport vendors, as well.

**Adjournment:**

There being no further business, the special meeting was adjourned 3:04 p.m.

Prepared:

Attest:

Amy Dressler, Deputy Commission Clerk

Fred Felleman, Committee Chair

Minutes approved: September 28, 2018.