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APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING DECEMBER 7, 2018

The Port of Seattle Commission Audit Committee met in a special meeting Friday, December 7, 2018, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioners Felleman and Steinbrueck. Public member Christina Gehrke was not present. Also in attendance were Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Olga Darlington, Partner, Moss Adams; Tyler Reparuk, Senior Manager, Moss Adams; Rudy Caluza, Director, Accounting and Financial Reporting; Bruce Klouzal, Senior IT Auditor; Scott Watson, Point B consultant; Mike Tasker, Aviation Facilities and Infrastructure; Stuart Mathews, Director, Aviation Maintenance; Dan Thomas, Chief Financial Officer; Aaron Pritchard, Commission Issues and Policy Manager; and Paul J. White, 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 September 28, 2018:

The minutes of the Audit Committee special meeting of September 28, 2018, were approved.

External Audit – [Moss Adams 2018 Engagement Service Plan](#)

The Committee received a presentation on the Moss Adams 2018 Service Engagement Plan from Ms. Darlington and Mr. Reparuk. The audit service team was listed and the audit schedule was summarized. Moss Adams' services include an external audit on financial statements for the port's Enterprise Fund and the Warehousemen's Pension Trust Fund as part of the port's Comprehensive Annual Financial Report (CAFR). These services include the following audit and reporting activities conducted in accordance with Government Accounting Standards:

- Internal controls and compliance over financial reporting.
- Compliance related to major federal award programs (federal grants).
- Receipts, expenditures, and controls for the Passenger Facility Charge program at Seattle-Tacoma International Airport.
- Net revenues available for revenue bond debt service.
- Financial procedures relating to environmental remediation at Terminal 91.

Committee members asked for more information pertaining to risk assessment methodology. Areas of audit emphasis, based on assessment of risk, include the following:

- Internal control cycles
- Management estimates
- Bond accounts
- Accounting for leases
- Revenue recognition
- Capital assets
- Net position classification
- Pension and other post-employment benefits liabilities
- Environmental remediation liability
- Investments
- Northwest Seaport Alliance joint venture
- Uniform grant guidance (“single audit”)

Committee members asked about the scope of the audit’s focus on the Northwest Seaport Alliance, which is separately audited. They also requested clarification about the difference between the focus of an external and internal auditor.

2018 Audit Plan Update:

The status of audits performed by the Internal Audit Department for 2018 was summarized. Audits not completed in 2018 include an operational audit of the Marine Maintenance Shops, an information technology audit of security of personally identifiable information, and a limited compliance audit of Sixt Rent-a-Car. The latter two audits were added to the work plan in September. These three audits will carry over to the proposed 2019 audit work plan.

Proposed 2019 Internal Audit Plan:

The proposed work plan for the Internal Audit Department for 2019 was presented. Ratings for risk assessment and revenue or capital budget assessment for each item were provided, and recent revenue recoveries related to Internal Audit activities were summarized. Audits planned in 2019 include the following:

Limited Contract Compliance

- Sixt Rent-a-Car LLC
- Enterprise Rent-a-Car
- Anton Airfoods
- Mad Anthony’s
- Concessions Marketing Fund

Operational

- Airport Security Screening
- Diversity Program
- Marine Maintenance

Capital

- Airport Baggage Optimization
- Airport Noise Insulation Programs
- Airport Concourse D Hardstand
- Shilshole Bay Marina Tenant Service Building

Information Technology

- Security of Personally Identifiable Information
- HIPAA (Health Insurance Portability and Accountability Act) Compliance
- Payment Card Industry Quality Security Assessor
- Closed Network System Security
- T2 Airport Garage Parking System Replacement

Contingency Audits (should resources be available)

- Lenlyn Limited (limited contract compliance)
- AIClear LLC (limited contract compliance)
- 2019 Taxi Cab Contract (operational)
- Cruise Terminal (capital)
- Inventory and Control of Hardware Assets (information technology)

The 2019 Internal Audit work plan was approved as presented.

Operational Audit – [Sea-Tac Utilities](#):

The audit period covered January 1, 2017, through October 31, 2018. The audit objective was assessment of the accuracy, completeness, and timeliness of utility billing and supporting processes. The utility was established in 2001 to provide water, natural gas, electricity, garbage, and wastewater service to Seattle-Tacoma International Airport. Findings focused on technical or oversight errors resulting in unbilled utility fees. A management response was provided.

Operational Audit – [International Arrivals Facility](#):

The audit period covered July 2015 through October 2018. The audit objective was to assure compliance with key terms of the port's contract with Clark Construction.

Three findings were presented, both with an assigned risk level of "medium." First, the maximum amount of insurance coverage required by the port's risk management group is \$3.95 per \$1,000, which is in line with general liability insurance rates in the Seattle market. The contract with Clark stipulates port reimbursement for insurance coverage at \$7.49 per \$1,000. Use of the lower general liability insurance rate would have saved the port approximately \$2.8 million. Internal Audit recommends specifying a maximum insurance coverage for port reimbursement, ensuring review of contract language by the risk management group, and avoiding audit limitations in future contracts, as auditing facilitates transparency and enables the port to ensure contract compliance.

Second, payroll-related costs for the guaranteed maximum price (GMP) for the International Arrivals Facility represent use of a labor multiplier rate that increased from 35.7 percent in the original 2015 contract with

Clark/SOM to 88.7 percent in the GMP contract. The labor multiplier rate in the Seattle region is typically between 30 percent and 45 percent and includes fringe benefits, burdens, bonuses, deferred compensation, profit sharing, health care, sick leave, vacation, et al. Use of a labor multiplier between 30 percent and 45 percent might result in a labor-related cost savings of between \$8.2 million and \$11 million for the International Arrivals Facility. Auditors were unable to assess the reasonableness of the higher rate because the contract includes a “not-subject-to-audit” clause.

Committee members commented on the not-subject-to-audit clause applied to some of the negotiated contractual elements. The need for the port to be able to validate future compliance and determine reasonableness of contract requirements was stressed.

Third, although instructed to issue subcontracts with a not-to-exceed method, and the presence of “not-to-exceed” language in seven of the main subcontracts reviewed, Clark is managing these subcontracts on a lump-sum basis. This means that subcontractors are compensated for 100 percent of the contract value, regardless of actual costs. In not-to-exceed contract management, savings, decreased costs, or process efficiencies would inure to the benefit of the port rather than the subcontractor. Lump-sum contracts do not provide the ability to review actual costs in an open-book environment. Internal Audit recommends that future contract language be explicit as to facilitate enforcement of reimbursement methods.

A management response was provided.

Information Technology Audit – Aviation Maintenance and Facilities and Infrastructure Data Centers

The audit period covered January 1, 2017, through November 15, 2018. The audit objective was to evaluate the effectiveness of information technology controls over Aviation Maintenance and Facilities and Infrastructure data centers and network closets. Findings focused on appropriate controls on personnel access, presence of clutter or storage of extraneous items, and presence of fire suppression measures. A management response was provided.

Information Technology Audit – Aviation Maintenance IT Change and Patch Management

Change management and patch management processes were summarized. Current practices of the Aviation Maintenance department reflect many best practices, though internal controls and processes have room for improvement to meet critical infrastructure environment requirements. A management response was provided.

Limited Contract Compliance Audit – Thrifty Car Rental

The audit period covered June 1, 2014, through May 31, 2017. The audit objective was to determine whether the concessionaire complied with significant financial provisions of the lease agreement. Findings included failure by the lessee to report \$103,577 in incidental gross revenue resulting in about \$10,358 in percentage fees and failure to charge and remit \$111,912 in customer facility charges to the port. A management response was provided.

Committee Comments:

None.

Adjournment:

There was no further business, and the special meeting adjourned at 3:17 p.m.

Prepared:

Paul J. White, Commission Clerk

Minutes approved: March 1, 2019.

Attest:

Peter Steinbrueck, Audit Committee Chair