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**PROPOSED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING SEPTEMBER 24, 2020**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, September 24, 2020. The meeting was held remotely in accordance with the governor's 'Safe Start' order and Proclamation 20-28. Committee members present included Commissioner Calkins, Commissioner Bowman, and Christina Gehrke. Also present were Glenn Fernandes, Director, Internal Audit; Dan Chase, Internal Audit Manager; Aaron Pritchard, Commission Policy Manager; Michelle Hart, Commission Clerk; and Lauren Smith, Deputy Commission Clerk.

**Call to Order:**

The committee special meeting was called to order at 1:39 p.m. by Commissioner Calkins.

**Approval of Audit Committee Meeting Minutes of May 7, 2020 and June 11, 2020:**

**The minutes of the Audit Committee special meeting of May 7 and June 11 of 2020, were approved without objection.**

**External Audit –Office of the Washington State Auditor opening:**

The Committee received a presentation from Mr. Joseph Simmons, Ms. Angela Funamori, and Ms. Maddie Frost-Shaffer that contained the following information:

- Introduction of the overall scope of the audit the Washington State Auditor's Office (SAO) will conduct for the year 2019;
- While the scope has not been fully identified, as they are very early in the process, the office will continue communication about the final determined scope.
- This year's audit will be conducted remotely due to Covid-19.
- As part of the accountability audit the SAO investigates management's use and safeguarding of public resources, as well as compliance with laws and policies.
- Due to objectives, the SAO may cover audits already done but with a different approach.
- Three levels of reporting, findings, management letters, and exit items.
- Review of the audit plan and plan for communication with Port staff throughout the audit.
- Results of the audit will be shared during an exit conference.
- Resources highlighted within the SAO including a Covid-19 toolkit specifically around CARES Act funding and others.
- Once SAO audit is completed Port complete an exit a survey;

- SAO and The Port highlighted the desire to be a good partners in conducting this audit.

**Proposed 2021 Internal Audit Budget:**

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

- budget guidelines of the Port in dealing with the budget during the current pandemic;
- Internal Audit was able to reduce costs for the upcoming 2021 budget year;
- One frozen position that had been vacant within the Internal Audit department; and
- cutting costs through not traveling and participating in some training; however, staff is still maintaining training needed to keep up with required licenses.

Committee members remarked on the department's ability to meet the challenge of the moment regarding the budget while still maintaining the essential function of internal audit and its importance to maintaining transparency.

**Without objection, the proposed 2021 Internal Audit budget was approved.**

**Internal Audit Department Charter Update:**

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

- updates to the Internal Audit charter, which is separate from that of the Audit Committee charter;
- Internal Audit charter changes are still reviewed, vetted, and approved by members of the Audit Committee - Mr. Fernandes was in communication with committee members about these changes;
- the original charter written in 2011 hasn't received an update since, and some standard requirements have changed; and
- updates do not change any roles or responsibilities - changes to the charter are mostly to clean up the document and clarify titles and technical terms.

**Without objection, the updated Internal Audit Department charter was approved.**

**Updates and Approvals:**

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

- Overlooked changes to the audit plan for 2020 - all changes are due to the Pandemic and were covered in-depth and approved at the June 11 audit committee meeting;
- At direction of Human Resources, the Internal Audit Department is in the process of auditing the Public Health Emergency Leave and will report back at the next Audit Committee meeting;
- Commissioner Bowman requested a look at teleworking and the tools needed for employees to be successful. Mr. Fernandes indicated Human Resources conducted a survey to this effect and updated the committee about the results of this survey and new policies to help employees be better equipped at home;
- High level review of deferred audits and which audit reports can be expected at the December Audit Committee meeting;
- Compiling list of potential 2021 audits - first added were audits deferred from 2020;
- Commissioner Bowman added a request relating to noise monitoring data;

- Commissioner Bowman also requested Internal Audit look into a project in which the project estimate was significantly lower than the bids and;
- Rent deferrals as a result of Covid-19 - not as much is known about what this will look like, but it is on the radar of Internal Audit;
- Planned audits for 2021 will be reviewed at the December Audit Committee meeting;
- Committee members inquired about potential audits for the future and if they are within the scope of the internal audit team;
- Review of the timeline follow-up of audit reports with issues - there is some slippage in timeliness of resolving issues due to Covid-19, but they are now moving forward; and
- Items outstanding that are in the year's range are in process but require a lot of time - these are mostly related to infrastructure.

Committee members remarked on the helpfulness of this aging report and the great work of Mr. Fernandes and his team.

**Operational Audit – AOA Perimeter Fence Line Standards Project:**

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

- The project was authorized in June 2017 and was selected because of the number of associated change orders and the project not hitting its original substantial completion date;
- The project is about a year behind schedule;
- This is an Important project, as it is a security fence around the perimeter;
- The objective of the audit;
- Issues around critical milestones not being met;
- This was the general contractor's first project with the Port - fall protection compliance documents, inexperience with Port contract provisions, not assigning enough staff, and not managing sub-contractors were all issues;
- The Port can pursue liquidated damages related to this project and its delay;
- The Port also made mistakes which will result in process improvements going forward;
- Mistakes included using an in-house designer team, in which there were eight change orders resulting in monetary and time loss;
- Commissioner Bowman raised questions about why new contractors struggle to comply with Port contracting procedures and asked staff to identify what could make it easier going forward;
- Commissioner Bowman opined that issues occurring in this project are widespread within Port projects;
- Ms. Janice Zahn provided management response information regarding the complexities of this specific project and an overview of how the Port provided support to the contractor, as well as lessons learned; and
- Ms. Zahn also indicated that this project had 40 days of delay due to Covid-19, as workers must work in proximity to each other.

**Information Technology Audit – Payment Card Industry (PCI) – Qualified Security Assessor:**

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

- This audit was done by an outside firm and is required to be done as a merchant that accepts payment cards such as visa, Mastercard, etc;

- The Port is compliant and passed this assessment; and
- Mr. Fernandes noted that going forward an audit such as this will be conducted in-house, as one of their team members completed and passed the training and testing to be a qualified security assessor.

**Limited Contract Compliance Audit – E-Z Rent A Car, Incorporated:**

The Committee received a presentation from Mr. Glenn Fernandes and a management response from Mr. Geoffrey Foster that included the following information:

- E-Z Rent A Car has been located at the airport for ten years, with consistent revenues up until the pandemic;
- The company recently filed for Chapter 11 bankruptcy;
- There were some issues found - Internal Audit is working with legal on the best course of action;
- A key issue found is that the customer facility charge was under-reported resulting in \$16,201 owed to the Port;
- The Port requested legal to go through the process of a pre-petition claim as the bankruptcy continues; and
- Mr. Foster updated the Committee that E-Z Rent A Car filed motion that was granted, rejecting the lease - legal is now going through the lease rejection process and pursuing avenues through bankruptcy court and lease security that was in place.

**Limited Contract Compliance Audit – Concourse Concessions, LLC:**

The Committee received a presentation from Mr. Glenn Fernandes and a management response from Ms. Dawn Hunter that included the following information:

- The business has been located at SeaTac since 2004, with multiple locations within the airport with substantial operations and revenues;
- An issue was found in the audit related to the removal of the minimum annual guarantee (MAG) in 2018;
- MAG was previously used to determine the security deposit, moving forward without it there was not a chance to adjust the security deposit, instead it was determined by outdated RE-2 policy;
- It was recommended that the RE-2 policy be updated and amended;
- Ms. Dawn Hunter, in providing a management response, indicated there was a lot of confusion regarding the lease amendment;
- Staff is working with legal and outside counsel to find a happy medium to resolve the issue;
- Ms. Hunter indicated staff is looking at all contracts, as Covid-19 relief highlighted contractual needs across the board that should be looked at in depth, including the RE-2 policy;
- Airport dining and retail is working with legal and internal stakeholders towards a solution regarding the broader contractual needs;
- Commissioner Bowman raised questions about the statement in the presentation which indicates contract terms such as this are a barrier for small businesses to run at the airport; and
- Ms. Hunter indicated this issue is part of the broader scope when looking deeper into all contracts at the airport, is being worked on, and will be brought to Commission at a later date.

**Limited Contract Compliance Audit – Fireworks Galleries, LLC:**

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Fireworks Galleries, covering the period of November 2017-December 2019. The purpose of the audit, as reported, was to determine whether Fireworks complied with their agreement with the Port.

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

**Adjournment:**

There being no further business, the special meeting was recessed to a non-public session to discuss security sensitive audits at 3:09 p.m. and was adjourned from the non-public session at 3:51 p.m. No final actions or comments were taken during the non-public session.

Prepared:

Attest:

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Lauren Smith, Deputy Commission Clerk

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Ryan Calkins, Audit Committee Chair

Minutes approved:

PRELIMINARY DRAFT ONLY