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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING JUNE 17, 2021***

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, June 17, 2021. The meeting was held remotely in accordance with Senate Concurrent Resolution 8402 and Governor Inslee's Proclamation 20-28. Committee members present included Commissioner Cho, Commissioner Bowman, and Christina Gehrke. Commissioner Steinbrueck was also in attendance. Staff present were Glenn Fernandes, Director, Internal Audit; Lisa Lam, Assistant Director, Accounting and Financial Reporting; Rudy Caluza, Director of Accounting and Financial Reporting; Dan Chase, Internal Audit Manager; Spencer Bright, Internal Audit Manager; Aaron Pritchard, Commission Policy Manager; and Michelle Hart, Commission Clerk.

1. Call to Order:

The committee special meeting was called to order at 2:30 p.m. by Commissioner Cho. Without objection, Item No. 7, Art Program Operational Audit, was moved to the first item of business, and the agenda was approved.

7. Art Program Operational Audit: (report)

Presenters:

Glenn Fernandes, Director, Internal Audit
Dan Chase, Internal Audit Manager
Spencer Bright, Internal Audit Manager - Capital

The presentation addressed:

- Governance by the Port-Wide Arts and Culture Board (Board) and funding has not occurred as required by the Arts and Cultural Program Policy Directive. Staffing levels and resources may also not be sufficient to develop and sustain an art program at both the aviation and maritime divisions.
- The Board is comprised of nine members (two commissioners, four public members, and three executive leadership team members or designees from Aviation, Economic Development, and Maritime divisions). Due to complex scheduling requirements, governance meetings have not been occurring consistently, as scheduled.
- Although internal resources and a contractor have recently been assigned, only one full-time aviation employee manages the art function.
- For Aviation, a one-time increase of \$1.223 million was made as a retroactive adjustment in January 2021. This adjustment was for projects with an effective date of January 2017. In 2021, a

*Commissioner Steinbrueck was in attendance and the meeting was advertised accordingly.

\$1.453 million decrease occurred and represented a reconciling adjustment for a 2014 decrease to the art budget (no funds were spent for art acquisitions). For the International Arrivals Facility and North Satellite construction projects, the Aviation group procured art purchases directly out of the project budgets and did not use the art pool.

- Recommendations;
 - Governance. To assure meetings occur as scheduled, the Board should consider revising the requirements of who needs to be present for a meeting to proceed as scheduled.
 - Funding. To reduce administrative burden and accounting transactions, funding requirements should be simplified to a one-time annual allocation based on a percentage of the capital budget.
 - Staffing. The Board should review the Five-Year Strategic Plan including the resource assessment, performed by the Lumiere Group. Adjustments to the plan might be necessary based on committed resources.
- Management Response;
 - Aviation Response. The Aviation Division agrees with the recommendations and will work with the Executive Director and the Port-Wide Arts and Culture Board on the changes to the governance, funding and staffing resources necessary to implement the recommendations. The Aviation Division supports the recommended once a year art budget allocation to the Aviation Art Pool rather than percent (%) allocation for each project when the construction budget is authorized.
 - Maritime and Economic Development Response. The Maritime and Economic Development Divisions agree with the finding and recommendation related to the governance. With respect to funding, the Maritime Division agrees with the recommendation that funding and staffing/resources be aligned, as well as simplified, however, the same solutions will not make sense to all divisions across the Port. The department will work with the Executive Director and the Portwide Arts and Culture Board on the changes to the governance, funding, and staffing resources necessary to address the findings in ways appropriate to the facilities.

Members of staff and the Committee discussed:

- composition and attendance of the Board;
- the art pool currently not being used for acquisition;
- overall management of the program;
- if funds from the art pool can be used for staffing;
- how other ports manage and function with their art programs; and
- extending the program beyond the airport to maritime.

2. Approval of Audit Committee Meeting Minutes of April 8, 2021:

The minutes of the Audit Committee special meeting of April 8, 2021, were approved without objection.

3. External Audit – Moss Adams, 2020 Audit Results (presentation)

Presenters:

Olga Darlington, Audit Partner
Anna Waldren, Manager

The presentation addressed:

- Areas of audit emphasis;

- Internal control environment - Capital assets/project management, cash receipts/receivables, cash disbursements/payables, payroll, bond and investment transactions, and administration of federal awards.
- Management estimates - Allowance for doubtful accounts, environmental remediation liability, legal contingencies and insurance recoveries, compensated absences, actuarial valuations for pension and OPEB amounts.
- Northwest Seaport Alliance joint venture - Confirmed the Port of Seattle's share in operating revenue through confirmation with component auditor and agreement to NWSA audited financial statements
- Rent Deferral Payment Plan - Obtained an understanding of the Port's Deferral Payment Plan and methodology for tracking and recording the deferrals. Selected a sample of tenants and obtained the signed deferral agreement and reviewed invoicing and payment support for adherence to deferral payment plan.
- Capital assets - Consideration of capitalization policies, testing of additions, retirements, overhead application, and depreciation; consideration of timely closing of CIP projects.
- Bond activity - Tested the three partial defeased bonds during 2020 which were defeased using proceeds from the sale of commercial paper.
- Debt repayments, arbitrage liability, discounts and premiums, compliance with covenants, and procedures over information presented in the net revenues schedule.
- Airline lease and operating agreement. Analysis of revenue requirement by cost center category under the SLOA IV agreement, including landing fees, terminal rents, gate fees, and baggage claim rates. Confirmations of amounts on an airline-by-airline basis.
- Fiduciary activities - Consideration of investment balances, plan contributions and distributions for the Warehousemen's Pension Trust Fund. Restatement of 2019 and 2018 reporting for 401(a) plans as a result of updated guidance.
- Revenue recognition - Operating revenue analysis using business indicators such as landed weight, enplanements, gate usage, and boat counts. Ad valorem tax levy, investment income, PFC, CFC, and federal grants. Consideration of the collectability of related receivables.
- Information technology - General Computer Controls. Some internal control recommendations were noted and provided to management.
- One major federal program identified and tested current year – Total federal awards reported on schedule of expenditures of federal awards - \$163.7M. Major program – FAA Airport Improvement Program - \$161.5M, including CARES Act funding of \$147.1M.
- Internal Control Matter;
 - In April 2020, prior to issuance of the auditor's report on the 2019 financial statements, Port project management staff identified several errors in classification of capital assets totaling approximately \$12M. The errors related to portions of capital projects that were completed and placed in service during 2019, but not timely reported to central accounting.
 - In January 2021, Port staff identified additional projects that were completed during 2019 but were not timely communicated to be closed in the accounting system, resulting in additional asset classification errors. Total errors of \$31.2M were corrected in the 2020 financial statements for projects that should have been closed and started depreciating in 2019.
 - Additional review and monitoring controls should be incorporated over construction project activity to ensure that projects that meet the criteria for capitalization are timely reported to central accounting to allow their timely closing and classification to capital

assets and for start of depreciation. These reviews should include enhanced coordination between divisional capital project management and project managers, divisional finance and central accounting to ensure timely updates to financial records for assets placed in service throughout the year.

- Management response: Management provided a response that included corrective action.
- Required Communications; and
- Upcoming Accounting Pronouncements.

Members of staff and the Committee discussed:

- timely communication of capital projects to central accounting; and
- incorporating the women and minority business enterprises (WMBE) element in Moss Adams audits.

4. APPROVAL of Request for Qualification (RFQ) of External Audit Services for 2022 to 2026 Operating Periods (memo)

Presenters:

Lisa Lam, Assistant Director, Accounting and Financial Reporting
Rudy Caluza, Director, Accounting and Financial Reporting

The presentation addressed:

- Annual independent audits required for the financial statements of the Port's Enterprise Fund and the Warehousemen's Pension Trust Fund for purposes of obtaining an independent auditors opinion as to the fairness in presentation of the financial results and position. Independent audits are also required for the Port's administration of Federal grants and Passenger Facility Charge (PFC) revenues in accordance with applicable regulations. The audits covered under the existing external audit services contract (P-00318441) are expiring in May 2022 once the audit services for the Port's 2021 Financial Period are completed.
- The request of staff – to review the solicitation for external audit services and recommend to the full Commission authorization for the Executive Director to initiate the procurement of external audit services.

Members of the Committee discussed scope of the external audit service and involvement of an internal audit department representative in the process.

The motion, made by Commissioner Bowman, to recommend approval of the RFQ for External Audit Services for 2022 to 2026 carried by the following vote: In favor: Bowman and Cho. (2)

Opposed: (0).

5. 2021 Audit Plan Update (amended presentation)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- Guiding Principles;
- Approved 2021 Audit Plan – limited contract compliance; operational; and information technology;
- Open Issues Follow-up Status – Aging Report as of June 17, 2021; and
- Completed Audits;
 - Art Program
 - Restroom Renovations Phase 3 Prototype
 - Biometrics
 - Lenlyn Limited.

Members of the Committee and staff discussed the status of IT issues.

8. Restroom Renovations Phase 3 Prototype (report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Dan Chase, Internal Audit Manager

Spencer Bright, Internal Audit Manager - Capital

The presentation addressed:

- Overbilling of the Port by approximately \$12,314 through force account change orders, which occurred because of incorrect labor hours and billing rates submitted by PCL for COVID-19 supervisors.
- Errors due to the Port being billed on a set rate for supervisors, instead of actual costs, and one day where the Port was billed for eight hours while the supervisor worked six hours.
- Recommendation is that the Port seek and recover any amount due.
- Management's Response - A deductive change order has been executed to recoup the amount that was overbilled by the Contractor and we are expecting repayment in June. Additional controls have been added to the Standard Operating Procedures (SOP) for Force Account work to specifically address verification of rates for non-labor (exempt) employees. The Port will reiterate to all our contractors the importance of verifying their information before submitting to the Port.

Members of the Committee and staff discussed change orders due to the pandemic and informing the Commission know when there isn't more than one contractor for a project.

10. Lenlyn Limited (report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Dan Chase, Internal Audit Manager

Spencer Bright, Internal Audit Manager - Capital

The presentation addressed:

- Underreported by Lenlyn Limited in the amount of \$324,836 in foreign currency and other service gross revenues, which resulted in approximately \$12,023 in additional percentage fees owed to the Port. The Lease Agreement did not specify the customary five percent late fee, resulting in \$4,260 in potential lost revenue to the Port.
- Recommendations;

- Management should pursue collection of the additional percentage fees of \$12,023 (estimate); define and specify in a new Lease Agreement, the foreign currency gross revenue calculation method/components, and gross revenue inclusion and exclusion items more clearly and thoroughly reflecting the foreign currency exchange concession; and specify five percent late fees in the Late Charges section of a new Lease Agreement.
- Management Response;
 - Management has engaged the tenant to address the outstanding balance for the additional percentage fees of \$12,023. The tenant has a credit on their account, which covers the outstanding balance. The tenant has requested that the outstanding balance be cleared via the application of the credit. In the preparation of a new Agreement, Management has engaged Lease Administration, Accounting, and Legal to ensure a clear understanding of the revenue reporting language of the contract for ease of administrations, and the late fee charges have been reinstated within the new Agreement as well.

Members of staff overviewed that the error was purely a mistake and recommended the collection of fees owed.

9. Biometrics (redacted report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Bruce Klouzal, Internal Audit Manager

The presentation addressed:

- The audit period from January 2020 through May 2021.
- The audit was performed to evaluate the adequacy of internal controls related to secure data storage, privacy, and network security around the processes for creating, storing and transmitting biometric data for the Biometric Air Exit (BAX) project.
- Internal Audit reviewed compliance with the 49 requirements of the Port of Seattle's EX-23 Biometric Air Exit Policy and the U.S. Customs and Border Protection's (CBP's) Biometric Air Exit Business Requirements (v2.0).
- CBP is congressionally mandated to implement a biometric entry/exit system.
- The Port of Seattle (Port) Commission, on March 10, 2020, directed staff to implement new policies governing the implementation of Biometric Air Exit at SEA.
- Based on the work we performed, and the information gathered, Internal Audit concluded that the BAX program has achieved reasonable compliance with both CBP and Port policy requirements.
- By implementing BAX, the Port was able to control the training of airline personnel and require that the training included sensitivity for dealing with passengers who might be concerned with facial recognition.
- Additionally, the Port was able to receive approval from CBP to develop and use its own signage at the departure gates to allow for considerably larger signs, with language that more clearly explains the passengers' rights for accepting or declining to use facial recognition.

Commissioner Bowman expressed appreciation for the transparency of opt in/opt out signage and audio regarding biometrics.

Commissioner Cho spoke regarding the Port's effort to enable its ability to control biometrics regulations and policies inasmuch as it is able by getting ahead of the conversation.

12. Adjournment

There being no further business, the special meeting recessed at 4:26 p.m. and re-convened in a non-public session to address security-sensitive information technology audit information related to Biometrics for approximately 30 mins. The meeting adjourned immediately at the conclusion of the discussion.

Prepared:

Attest:

Michelle M. Hart, MMC, Commission Clerk

Stephanie Bowman, Audit Committee Chair

Minutes approved: September 9, 2021.