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**APPROVED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING  
DECEMBER 9, 2021**

The Port of Seattle Commission Audit Committee met in a special meeting Thursday, December 9, 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 Public Member Christina Gehrke.

**1. Call to Order:**

The committee special meeting was called to order at 2:30 p.m. by Commissioner Bowman. The agenda was approved without objection.

*\*Internal Audit Department presentation is found here and contains information for Agenda Items 4 through 10.*

**2. Approval of Audit Committee Meeting Minutes of September 9, 2021:**

**The minutes of the Audit Committee special meeting of September 9, 2021, were approved without objection.**

**3. Moss Adams – 2021 Audit Engagement Service Plan (presentation)**

Presenters:

*Olga Darlington, Audit Partner  
Anna Waldren, Manager*

Moss Adams provided team introductions and overviewed the presentation agenda.

The presentation addressed the summary and deliverables of the engagement, auditing standards, review standards, risks identified, audit timeline, and process documents.

Members of the Committee thanked the audit team for their report.

**4. APPROVAL of External Audit Services Selection for 2022 to 2026 Operating Periods**  
*(See Memo)*

Presenters:

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

Ms. Lam spoke regarding the solicitation and evaluation process, noting that Commission authorization for the selection of services has been previously received.

Commissioner Cho thanked staff for the commitment of 15 percent to minority-owned businesses.

**The motion, made by Commissioner Cho, to approve the external audit services selection for the 2022 to 2026 operating period carried by the following vote: In favor: Cho and Bowman. (2)**

**Opposed: (0).**

**5. Update – 2021 Audit Plan**

Presenters:

*Glenn Fernandes, Director, Internal Audit*

The presentation addressed:

- the 2021 Audit Plan status of items;
  - 19 audit reports were completed in 2021 as planned: Operational (6), Capital Projects (4), IT (5), and Limited Contract Compliance (4)
  - audits identified 4 high risk, 12 medium risk, and 5 low risk rated issues for management action
  - Internal Audit's 2021 value proposition to respond to COVID-19 impact and associated business risks: Audit of Rent and Concession Deferral Recovery - direct relevance of the Port's financial relief to tenants and repayment activities; Capital Project Audits – incorporated COVID-19 related expenses and change orders into audits; Cruise Terminals of America – 2020 cruise season rent credit review
  - the Port has opportunities to reduce change orders, schedule delays and design issues
- 2021/2020 suggested recoveries and cost over-runs;
- Operational audit approach;
  - risk interviews held with a sample of Port leaders
  - common risk themes identified from interview data
  - input from Commissioners and Executive Director
- proposed 2022 operational audits;
- capital projects audit approach;
- proposed 2022 capital audit plan;
- information technology audit plan approach;
- proposed 2022 audit/assessments and contingency audits for information technology;
- lease and concessions audit plan approach and proposed 2022 audits; and
- the historical audits report overview 2018 – 2022.

Members of the Committee thanked Mr. Fernandes for his report.

**6. Approval of Proposed 2022 Internal Audit Plan**

Presenters:

*Glenn Fernandes, Director, Internal Audit*

The report addressed the proposed 2022 audit plan – limited contract compliance audits; operational audits; information technology audits; and contingency audits.

Discussion ensued regarding comparing capital projects against each other, as opposed to reviewing them on an isolated basis, and reviewing information technology audits in order to ascertain if there are commonalities across the audits.

Commissioner Bowman appreciated the previous inclusion of the International Arrivals Facility into the audit queue.

**The motion, made by Commissioner Cho, to approve the 2022 audit plan carried by the following vote: In favor: Cho and Bowman. (2)**

**Opposed: (0).**

**7. Open Issue Follow-Up**

Presenters:

*Glenn Fernandes, Director, Internal Audit*

The presentation addressed the Open Issues Follow-up Status – Aging Report as of December 9, 2021;

- twelve issues outstanding for one to two years from the target date
- four information technology issues do not have target dates and are not included in the report.

**8. Capitalization of Assets – Operational Audit (*See Report*)**

Presenters:

*Glenn Fernandes, Director, Internal Audit*

*Dan Chase, Internal Audit Manager*

*Spencer Bright, Internal Audit Manager - Capital*

The presentation addressed:

- Port Accounting Policy AC-8b standards for capitalization of major expenses;
- construction costs recorded against Construction Work-in-Process (CWIP) when the asset has a useful life of three years or more, the Port has ownership and control, and total costs of at least \$20,000;
- as of December 31, 2020: CWIP is \$1.347 billion, and Capital Assets are \$8.164 billion;
- A Standard Operating Procedure was documented and adopted in February 2021; however, internal controls need to be enhanced whereby project leads review and approve their work, a year-end re-confirmation is performed, and a final notification is sent out to all stakeholders - reducing the likelihood that assets are not transferred from Construction Work-in-Process to Capital Assets in the correct period.

- recommendations;
  - annual review process - program leads should formally review and approve information before it is submitted to Capital Services
  - Facility Asset Review Meeting (FARM) – the year-end FARM should include a final opportunity for stakeholders to re-confirm the accuracy of project status
  - Capital Services should provide a notification to key stakeholders so that they can validate the accuracy of what was recorded.
- management response;
  - Management agrees that all projects reviewed will include a review and sign-off from the appropriate program leads.
  - Management disagrees with the recommendation that a FARM should be scheduled at the end of the year to reconfirm assets for every project - instead, management will evaluate making a FARM required for qualifying projects in the design phase, where preliminary asset plans are developed, and again during construction, prior to asset plan submission, to ensure a timely, coordinated asset plan final submission.
  - Management agrees with the recommendation of notification from Capital Services and will implement this process for year-end reporting.

Staff and the Committee discussed designing a process that does not create a single point of failure with redundancy built in.

**9. North Terminals Utilities Upgrade – Phase I – Operational Audit (*See Report*)**

Presenters:

*Glenn Fernandes, Director, Internal Audit*  
*Dan Chase, Internal Audit Manager*

The presentation addressed:

- Phase 1 replaced the existing 45-year-old undersized steam, condensate, and chilled water supply, return piping from the Central Mechanical Plant and created a redundant interconnected piping loop in two phases;
- key elements of Phase I;
- project approval by Commission in June 2016 for \$21.3M;
- the Engineer’s Estimate for Phase 1 of \$11,653,000;
- four bids were received; three bids exceeded the estimate by at least 15 percent;
- the winning bidder, James W. Fowler Co., submitted a bid for \$12,184,750 - 4.5 percent over the Engineer’s Estimate;
- final construction cost is \$13.36M, including \$1.17M in change orders.
- Internal Audit noted instances where the Port’s Standard Operating Procedures were not followed for Change Orders;
- recommendations;
  - Management should strengthen the control over documentation, approval, and compliance with Standard Operating Procedures.
  - Although the Port is not responsible for the contractor, or their subcontractors, to submit accurate certified payroll reports to the Washington Department of Labor and Industries (L&I).
- management response - The Engineering Construction Management and Central Procurement Office (CPO) Construction Contracting teams agree with the findings. Key areas of focus for Construction

Management to address these issues will be on training and oversight of staff who are less experienced with Port processes, both FTEs and Consultants. In addition to referencing published Standard Operating Procedures, we will continue to reinforce our processes through regular meetings with staff, with an expanded attendee list to include Consultants, to increase overall understanding of these processes and best practices for enforcement of the contract and management of changes. We will continue to coordinate with our CPO Construction Contracting partners to strengthen controls and ensure all required elements are in place before executing changes to the Contract.

**10. Rent and Concession Deferral Recovery – Operational Audit (See Report)**

Presenters:

*Glenn Fernandes, Director, Internal Audit*  
*Dan Chase, Internal Audit Manager*

The presentation addressed:

- Since April 2020, the Port Commission has authorized short-term economic relief to customers, airlines, concessionaires, and tenants to address impacts of the economic crisis resulting from the COVID-19 pandemic.
- Based on approvals by the Port Commission via Motions 2020-07 and 2020-13, the Port created and implemented the Program.
- The Port and the tenants or concessionaires entered into deferral agreements detailing the arrangement that included a repayment plan.
- As of December 31, 2020, the deferred charges were \$61.1M, including \$4.1M of Norwegian Cruise Line Holdings (NCL).
- As of October 27, 2021, the outstanding deferred charges were \$2.7M, of which NCL had the largest balance of \$2M.
- Internal Audit identified monitoring controls that are significant to the current processes.
- A sample of business leaders interviewed expressed concern about the uncertainty of the COVID-19 pandemic, new requirements, and related impact on the Port and tenants.
- Detail testing for a sample of six deferral agreements noted participating tenants' compliance with program requirements.
- Based on the work we performed, Internal Audit concluded that the current processes and related internal controls are operating as intended, to assure Program compliance with applicable laws and Port policies.

\*Item 11, Payment Card Industry (PCI) Compliance; Item 12, Continuous Vulnerability Management; and Item 13, Data Recovery (Information Technology Audits) will be discussed during the non-public session of the Committee due to security sensitivity.

**14. Dilettante Chocolate, Inc. – Limited Contract Compliance Audits**

Presenters:

*Glenn Fernandes, Director, Internal Audit*  
*Dan Chase, Internal Audit Manager*

The presentation addressed:

- lease Agreement established in 2016;
- gross revenues about \$3.85M annually (prior to COVID-19);

- concession fees paid about \$593,000 annually (prior to COVID-19);
- Internal Audit concluded that Dilettante Chocolate, Inc. materially complied with the significant terms of the Agreement.

**12. Committee Comments**

Members of the Committee and Mr. Fernandes recognized Member Christina Gehrke for her years of public service as a volunteer public member on the Port of Seattle Audit Committee. Ms. Gehrke was acknowledged for her contributions during her tenure and will be missed in her retirement.

**16. Adjournment**

There being no further business, the special meeting recessed for a five-minute break at 4:00 p.m. and re-convened in a non-public session to address security-sensitive information technology audit information for Items 11, 12, and 13 for approximately 60 mins. The meeting adjourned immediately at the conclusion of the discussion and no further action was taken.

Prepared:

Attest:

\_\_\_\_\_  
Michelle M. Hart, MMC, Commission Clerk

\_\_\_\_\_  
Sam Cho, Audit Committee Chair

Minutes approved: April 7, 2022.