

This document is a text-only reovery of the original PDF file. Any graphics that were in the original PDF are not included here. If you need the original document, please contact the Commission Clerk at the Port of Seattle.

[Link]

<http://www.portseattle.org/>

P.O. Box 1209

Seattle, Washington 98111

www.portseattle.org; 206.787.3000

APPROVED MINUTES

AUDIT COMMITTEE SPECIAL MEETING

June 17, 2022

The Port of Seattle Commission Audit Committee met in a special meeting Friday, June 17, 2022. The meeting was held in the Commission Chambers located at Port of Seattle Headquarters, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioners Cho and Mohamed and Public Member Sarah Holmstrom.

1. Call to Order:

The committee special meeting was called to order at 2:04 p.m. by Commissioner Cho. The agenda was approved without objection.

*Internal Audit Department presentation is found here and contains information for Agenda Items 4 through 10. Item 8 is security sensitive and was discussed in non-public session.

2. Approval of Audit Committee Meeting Minutes of April 7, 2022:

The minutes of the Audit Committee special meeting of April 7, 2022, were approved without objection.

3. Moss Adams – 2021 Financial Statement Audit Results (presentation and report)

Presenters:

Olga Darlington, Partner

Anna Waldren, Senior Manager

Connor McCauley, Senior Manager

Staff from Moss Adams provided a presentation of the Port's 2021 Financial Statement Audit results, noting there were no internal control or compliance findings.

The presentation summarized the results as follows:

- Auditor reports issued;
- o audit and report on the schedule of Passenger Facility Charge (PFC) receipts and expenditures and related internal controls - one significant deficiency in internal control included in the report related to the reporting of certain PFC revenues resulted in an adjustment of unliquidated revenues in the FAA quarterly reports;

PORT COMMISSION AUDIT COMMITTEE MEETING MINUTES Page 2 of 3

THURSDAY, JUNE 17, 2022

o report on the Schedule of Net Revenues Available for Revenue Bond Debt Service;

o report on Agreed Upon Procedures for Washington State Department of Ecology (to be completed in May);

o report on Agreed Upon Procedures for Environmental Protection Agency (to be completed in May);

- areas of audit emphasis;
 - o internal control environment;
 - o management estimates;
 - o Northwest Seaport Alliance joint venture;
 - o Capital assets;
 - o Bond activity;
 - o Airline lease and operating agreement;
 - o fiduciary activities;
 - o revenue recognition;
 - o Information technology;
 - o one major federal program identified and tested current year.

• PFC Internal Control matter – it was recommended that Port management improve the process to include reconciliation of cash balances of PFC funds to the unliquidated revenue balance on the PFC Schedule of Revenues and Expenditures, at least quarterly, evaluate unusual transactions and resolve discrepant items identified prior to submission of the report to the FAA. Management responded with a corrective action that has already been implemented.

The Audit team concluded there were no uncorrected audit adjustments identified and there were no disagreements with management or difficulties encountered during the audit.

Rudy Caluza, Director of Accounting and Financial Reporting, spoke regarding the PFC internal control matter, noting that a reporting error was identified and adjusted. Discussion ensued regarding why the internal control matter was not considered a material weakness, and separately regarding ACH fraud. Mr. Caluza also spoke regarding the strong policy direction given by the Commission for WMBE participation, noting that there are two WMBE firms currently working with Moss Adams.

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

4. 2022 Audit Plan Update

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes welcomed new Public Member, Sarah Holmstrom, to the committee and overviewed the 2022 Audit Plan Update.

The update included an overview of the 2022 guiding principles – professional standards; Internal Audit's responsiveness to emerging business risks; and statutory requirements of final cost reconciliation of any subcontractor selected through an alternative process, when the General Contractor Construction Management project delivery method is used.

PORT COMMISSION AUDIT COMMITTEE MEETING MINUTES Page 3 of 3

THURSDAY, JUNE 17, 2022

Discussion ensued regarding protocol and controls if a contract deficiency is identified – the legal department would be consulted and a discussion would ensue with the management group thereafter to address any contract changes.

5. Open Issue Status

Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes also overviewed the Open Issues Status – Aging Report as of June 2, 2022.

Public Member Holmstrom inquired if there were any open issues the committee should look at more closely or revisit for priority. Mr. Fernandes responded regarding the review and status of the items.

Mr. Fernandes continued with overviewing the approved 2022 Audit Plan and plan status, noting items completed, in process, not started, and deferred to 2023.

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

6. North Satellite Renovation & Expansion – Independent Audit Results (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Dan Chase, Manager, Internal Audit

Spencer Bright, Manager, Internal Audit - Capital

The presentation addressed:

- RCW 39.10.385 requires an independent audit of subcontractor costs when subcontractors are selected through an alternative means;
- R.L. Townsend & Associates, LLC. was engaged to perform the audit for Hermanson (MC/CM) and ECA (EC/CM);
- the report documented audit adjustments and costs avoided;
- Internal Audit is performing a separate audit and will look at areas that R.L. Townsend did not look at - the results of that engagement will be presented to the Audit Committee in September;
- Procedures performed:
 - o reviewed job cost accounting records;
 - o reviewed subcontracts for alternates, allowances, and unit rates;
 - o reviewed subcontractor Change Order supporting documentation for correct fees, labor rates, potential duplicates, math errors, or any unusual items;
 - o reviewed monthly EC/CM and MC/CM pay application requests for accuracy, allowable expenses, and proper support.
- findings:
 - o payroll tax adjustments accounted for \$814,973 (80%) and overbillings accounted for another \$178,116 (10%), of the \$1,024,071 in Agreed to Credits;
 - o pay application reviews identified avoidable costs prior to Port payments - these avoidable costs were primarily due to schedule of values inaccuracies and labor costs.

PORT COMMISSION AUDIT COMMITTEE MEETING MINUTES Page 4 of 3

THURSDAY, JUNE 17, 2022

Discussion ensued regarding:

- R.L. Townsend's review;
- exceptions found in mostly salaries and benefits; and

- timing on how audits are conducted – beginning at the start of a project.
- Members of the Committee thanked the Internal Audit team for the report.

7. Emergency Procurement (See Report)

Presenters:

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

The presentation addressed:

- the March 16, 2020, Port of Seattle's Executive Director's formally declared emergency due to the COVID-19 outbreak;
- the intent of the declaration to "minimize the impact of COVID-19 to Port of Seattle operations, its employees, contractors, and public health;"
- the announced authorization to expedite the "award of any necessary contracts including those for goods and services, personal services, professional services, and public works in accordance with all applicable laws, regulations, and policies...;"
- emergency purchase provisions guided by the Revised Code of Washington (RCW);
- RCW 39.04.280 defines emergency as "unforeseen circumstances beyond the control of the municipality;"
- this RCW and other related RCWs broadly waived competitive bidding requirements to expediate the procurement process;
- the annual costs and types of purchases for the period beginning March 16, 2020, through March 31, 2022;
- reflected COVID-19 costs incurred on capital projects as of May 3, 2022 (not included in scope of audit); and
- Internal Audit concluded that purchases were made within the Port's delegation of authority limits and followed RCW requirements and also validated that those costs appeared reasonable.

Discussion ensued regarding:

- Port efforts to ensure it received fair pricing;
- Covid-19 Change Orders for safety costs;
- comparing our costs against other ports and airports – staff will be meeting with all airport auditors and will inquire;
- some costs coming in lower than expected and difficulties in procurement; and
- the Commission's consideration of revision to the Delegation of Responsibility and Authority policy directive.

PORT COMMISSION AUDIT COMMITTEE MEETING MINUTES Page 5 of 3
THURSDAY, JUNE 17, 2022

8. Audit Log Management (Aviation Maintenance)

Presenters:

Bruce Klouzal, Manager, Internal Audit – IT
(Discussed in non-public session as a security-sensitive information technology item.)

9. The Hertz Corporation (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- the Port entered into a Consolidated Rental Car Facility Lease Agreement with Hertz in July 2008;
- the agreement requires a Minimum Annual Guarantee equal to 85 percent of the total paid to the Port for the previous year;
- the agreement requires a daily Customer Facility Charge (CFC) of \$6.00 on vehicle transactions;
- effective January 1, 2021, the CFC increased to \$6.50;
- approximately \$24 million was paid to the Port during the audit period (June 2018 - May 2021);
- Hertz's systems and records were unable to clearly discern which customers were eligible to receive a CFC waiver;
- Internal Audit identified 3,081 rental tickets, totaling approximately \$173,000, where CFC was not charged and remitted;
- Hertz asserted that about \$164,000 were insurance replacement rentals and, therefore, allowable exclusions;
- Internal Audit recommends that the Port should collect the \$9,181 plus any accrued interest and/or penalties; and
- Internal Audit will partner with Aviation Commercial Management and will recommend an appropriate course of action based on data provided by Hertz.

Management provided a response noting that Aviation Commercial Management (AVCM) will continue working with Hertz and Internal Audit to review the variances identified through the audit, Hertz's

documentation supporting the variances, and determine the total under-reported CFC charges due to the Port and will seek collection accordingly. AVCM is continuing conversations with both Hertz and Internal Audit to review the variances identified and will work together to ensure all CFCs owed to the Port under the agreement have been collected.

Committee discussion with staff ensued regarding:

- Hertz's systems unable to clearly discern which customers were eligible to receive a CFC waiver;
- rate-setting; and
- minimal annual guarantees.

Members of the Committee thanked the Internal Audit Department for its review and Management for their response.

PORT COMMISSION AUDIT COMMITTEE MEETING MINUTES Page 6 of 3
THURSDAY, JUNE 17, 2022

10. In-Ter-Space Services, Inc. DBA Clear Channel Airports (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

The presentation addressed:

- a renewed, ten-year lease agreement was established in 2017 for a promotional and advertising services concession;
- the agreement requires a Minimum Annual Guarantee equal to 85 percent of the total paid to the Port for the previous year;
- the percentage fee is equal to 67 percent of gross sales, including the first seven percent specified as Contract Rent;
- for the audit period (January 2019 – December 2021) - Gross revenues at \$22 million, Percentage Fees at \$13.2 million, and Contract Rent at \$1.5 million; and
- Internal Audit concluded that In-Ter-Space Services, Inc., materially complied with the significant terms of the agreement.

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

11. Committee Comments

Members of the Committee and staff again welcomed Public Member Sarah Holmstrom to the committee.

16. Adjournment

There being no further business, the special meeting recessed for a five-minute break at 4:00 p.m. and reconvened in a non-public session to address security-sensitive information technology audit information for Agenda Item 8, for approximately 30 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: September 8, 2022.