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APPROVED MINUTES

AUDIT COMMITTEE SPECIAL MEETING

June 30, 2023

The Port of Seattle Commission Audit Committee met in a special meeting Friday, June 30, 2023. The meeting was held in the Commission Chambers located at the Port of Seattle Headquarters Building, 2711 Alaskan Way, Seattle, WA, and virtually via Microsoft Teams. Committee members present included Commissioners Cho and Mohamed and Public Member Sarah Holmstrom (non-voting).

1. Call to Order:

The committee special meeting was called to order at 11:00 a.m. by Commissioner Mohamed. The agenda was approved without objection.

\*Internal Audit Department presentation is found here and contains information for Agenda Items 4 through 9.

2. Approval of Audit Committee Meeting Minutes of April 6, 2023

The minutes of the Audit Committee special meeting of April 6, 2023, were approved without objection.

3. Moss Adams – 2022 Financial Statement Audit Results (Presentation)

Presenters:

Olga Darlington, Partner

Anna Waldren, Senior Manager

Connor McCauley, Senior Auditor

The Moss Adams Audit Team presented its 2022 Audit results, noting:

- 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 revenue recognition;

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- o adoption of GASB 87;
- o fiduciary activities;
- o information technology;
- o one major federal program identified and tested current year.

• report issued;

o audit report on financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund;

o report on internal control over financial reporting and on compliance and other matters;

o report on compliance for the major federal program and on internal control over compliance; report on schedule of expenditures of Federal awards required by the Uniform Guidance.

Members of the Committee and staff discussed

- time periods considered for the life of leases and any extensions granted in determining calculations for Net Present Value;
- whether our independent audit for Passenger Facilities Charges (PFC) is separate, or if there is overlap with the FAA's audit – the FAA uses our independent auditor's PFC audit information; and
- acknowledgment of the Accounting and Financial Reporting team and Finance Department who

worked through the audit.

#### UPDATES AND APPROVALS

Internal Audit Director Glenn Fernandes recognized Ritika Marwaha as the new Port of Seattle IT Audit Manager.

#### 4. Open Issue Status

##### Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of Open Issues, reporting as of June 15, 2023.

The presentation addressed outstanding issues over one year from the target date of completion and technology issues that do not have target dates and are not included in the aging chart.

Mr. Fernandes noted:

- IT Audits will be discussed in non-public session in September;
- concessionaries surety/deposits needs to be in-line with the level the Commission has directed or what the RCW has directed;
- architectural and engineering fair and reasonable rate determinations is also an open item – discussions are ongoing to determine what is fair and reasonable;
- several other open items have now been closed.

Committee Member Sarah Holmstrom asked that open issues be split out in order to see what is in progress.

Mr. Fernandes advised that he could split out audits in progress more thoroughly and can provide trends month-over-month to give a better understanding of audit progression.

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[https://meetings.portseattle.org/portmeetings/attachments/2023/2023\\_06\\_30\\_AM\\_06\\_Attachment\\_Payroll-Controls-Audit.pdf](https://meetings.portseattle.org/portmeetings/attachments/2023/2023_06_30_AM_06_Attachment_Payroll-Controls-Audit.pdf)

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#### 5. 2023 Audit Plan Update

##### Presenters:

Glenn Fernandes, Director, Internal Audit

Mr. Fernandes overviewed the status of the approved 2023 Audit Plan, including Limited Contract Compliance; Performance Audits; and Information Technology Audits.

Discussion ensued regarding cyber risks increasing year-over-year. Mr. Fernandes reviewed the Gantt chart showing the status of the 2023 audit plan progression.

#### PERFORMANCE AUDITS

#### 6. Portwide Payroll Controls (See Report)

##### Presenters:

Glenn Fernandes, Director, Internal Audit

Rumi Okuma, Senior Internal Auditor

Bruce Klouzal, Manager, Internal Audit

The presentation addressed:

- Internal Audit's completion of an audit of the Port of Seattle's payroll controls for the period January 2022 through December 2022;
- the audit was performed to evaluate the current payroll process and related internal controls (preventive and detective) to determine if they were operating as intended to manage business risk;
- the audit scope included: system access controls, segregation of duties, common payroll fraud assessments/testing, and different time-recording systems used by some business areas that might increase risk exposure to the Port;
- the relevant controls reviewed in the payroll process were reasonably designed and operating effectively, however, the audit identified opportunities where internal controls could be enhanced or developed;
- the Maximo System used by Aviation Maintenance Department generated semi-annual, preventive maintenance work orders for certain retired assets, requiring maintenance staff to spend up to 3 hours for each unnecessary work order over 10 years;
- there are currently no hard stops configured into the HCM system to prevent employees from modifying their time after supervisory approval; and
- one finding – to be discussed in non-public session.

Mr. Fernandes discussed audit recommendations and management provided their response to the recommendations.

Members of the Committee and staff discussed:

- fall protection, and if the audit looked into other assets as well – the audit looked at lifeline systems and assumes the four lifeline systems are in the same status;

- asset disposition and looking at assets holistically for asset maintenance;

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[https://meetings.portseattle.org/portmeetings/attachments/2023/2023\\_06\\_30\\_AM\\_08\\_Attachment\\_Terminal-117-Sites-23-25-Restoration-Project-Audit-Report.pdf](https://meetings.portseattle.org/portmeetings/attachments/2023/2023_06_30_AM_08_Attachment_Terminal-117-Sites-23-25-Restoration-Project-Audit-Report.pdf)

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- an active effort to go through the database and resolve these issues;
- Health and Safety is working with an outside vendor for identification and resolution;
- if the system has the ability to turn on hard stops; and
- recommendations to improve operational efficiencies.

#### 7. Social and Environmental Reporting (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Rumi Okuma, Senior Internal Auditor

Dan Chase, Internal Audit Manager

The presentation addressed:

- the audit period of January through December 2022;
- scope included;
  - o Diversity in Contracting 2022 Annual Report;
  - o Office of Equity, Diversity, and Inclusion 2022 Report;
  - o Aviation and Maritime 2022 Environmental Year in Review;
- purpose of the audit – to evaluate internal controls and to assess the accuracy and reliability of reporting;
- requirements of the Washington State Office of Minority and Women's Business Enterprises;
- findings of the audit;
  - o the Diversity in Contracting 2022 Annual Report contained duplicate WMBE firms, highlighting the need to perform validation procedures (internal controls) so that duplicates can be identified and removed;
  - o the Office of Equity, Diversity, and Inclusion 2022 Report stated "1,219 People hired into jobs through the Seattle-Tacoma International Airport Employment Center" -- this number should have been reported as 1,479.

Audit recommendations were discussed and management provided their responses.

Members of the Committee and staff discussed:

- verification of WMBE status being needed;
- concern around certification for small business owners and the need for a mechanism that is more than just checking a box; and
- some businesses deciding not to get certified and rather going to other membership organizations.

#### 8. T-117 Sites 23-25 Restoration Construction Project (See Report)

Presenters:

Glenn Fernandes, Director, Internal Audit

Spencer Bright, Manager, Internal Audit – Capital

The presentation addressed:

- purchase and restoration clean-up of the site;
- restoration history;
- an independent audit undertaken to perform sufficient testing and attest procedures on Pay Applications submitted by Scarsella Brothers Inc, the General Contractor/Construction Manager

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of the restoration project, and to conclude whether any costs invoiced were not reimbursable due to a lack of accounting support, unallowable per contract terms, or noncompliant with regulations pertaining to the construction contract; and

- findings;
  - o the GC/CM did not include a notification of their intent to bid on the public solicitation for subcontract work, as required by state law (RCW 39.10.390);
  - o the Trucking bid package was competitively bid for Site 25, but not for Site 23 - since the time of these solicitations in 2020, the Central Procurement Office has updated their processes to assure future solicitations comply with state laws;

o the Port was overbilled by approximately \$44,728 for street sweeping and \$122,385 for traffic control subcontract expenses;

o payments were made on a percentage of completion basis rather than actual hours, as required by the contract - the Construction Management project team were aware of the overbilling and correction needed, prior to the start of the audit.

Audit recommendations were discussed and management provided their responses.

#### LIMITED CONTRACT COMPLIANCE AUDITS

##### 9. ATZ, Inc. dba Doug Fox Parking (See Report)

Mr. Fernandes noted that this was a clean audit and advised that the owner was due a credit and this was reconciled with the owner.

##### 10. Committee Comments

Members of the Committee thanked staff for their presentations and management for their thorough responses.

##### 13. Adjournment

There being no further business the special meeting adjourned at 12:27 p.m.

Prepared: Attest:

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Michelle M. Hart, MMC, Commission Clerk Hamdi Mohamed, Audit Committee Chair

Minutes approved: September 7, 2023.