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## **APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING SEPTEMBER 2, 2008**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, August 5, 2008 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Commissioners Hara and Tarleton were present, as well as citizen committee member Steve Miller. Also in attendance was Deputy CEO Linda Strout and Joyce Kirangi, Port Internal Audit Manager.

### **CALL TO ORDER**

The committee special meeting was called to order at 9:01 a.m. by Commissioner Lloyd Hara.

- **Motion for approval of minutes for audit committee meeting of August 5, 2008 - Tarleton**

Motion carried by the following vote:

In Favor: Hara, Tarleton (2)

### **Update on Audit of Port Jobs**

Presenter: Rudy Caluza, Director, Accounting and Financial Reporting

Mr. Caluza clarified that his report on Port Jobs was not actually an audit, but was a limited scope of agreed upon procedures review, which was prompted by a complaint filed with the Port's fraud hotline, questioning whether the 20 cents per hour obtained on major construction projects is being used as intended for pre-apprenticeship purposes.

Mr. Caluza stated that Port executive leadership had suggested there also be a review of whether the Port Jobs office was meeting the terms of their contract with regard to the funding of their office, the operations, and the program.

Mr. Caluza reported that services of the accounting firm of Jacobson Jarvis were obtained, which provided a very positive audit result. It was determined by Jacobson Jarvis that the 20 cents per hour from major constructions projects was being reinvested appropriately, without question. With regard to the service contracts, it was determined that requirements were being met appropriately. Recommendations included providing more clarity within Port Jobs contracts regarding the 20 cents per hour pre-apprenticeship monies and how it should be applied, and also that reporting requirements of the Port Jobs program should be more clear.

Responding to Commissioner Hara's question as to the status of the Port Jobs current contracts, Ms. Strout stated that they were currently overdue, and that their renewal was in the works, with the responsibility resting with Elaine Ko, Director, Office of Social Responsibility.

Mr. Caluza commented that the recommendations of Jacobson Jarvis were being incorporated into the Port Jobs contracts.

Public comment regarding Port Jobs was received from the following:

- Paige Miller, Port Jobs Board President and former Port Commissioner

Mr. Caluza agreed to provide for the record a copy of the audit report and letter of response from Port Jobs.

### **Update on Airport Lease and Concessions Issues**

Presenters: Ms. Kirangi, Jack Hutchinson, Senior Internal Auditor, and Luis Navarro, Manager, Aviation Properties

An update was given on issues within the internal audit of Airport Concessions, which was provided to the audit committee in May. Open items within the audit report included issues of the flight kitchens LSG Sky Chefs, Gate Gourmet, Inc., and Flying Food Services.

Mr. Navarro reviewed the responses to the audit recommendations, noting that the only outstanding item currently was with LSG Sky Chefs regarding additional an additional concession fee due to the Port for the period covered by the audit. He commented that a deadline of September 5, 2008 was given to the tenant to provide justification for the under-payment or the Port would begin collection proceedings.

Commissioner Tarleton recommended that as dollars being collected are being tracked, tracking of changes in internal processes and procedures and methods being adopted in response to audits should also occur.

Commissioner Tarleton stated that there is a need for the Port's Information Technology Department systems to be up to the task of assisting other departments in implementing proposed changes to processes and controls.

Committee member Miller encouraged the Concessions department to share with other departments who manage leases, 'better practices' resulting from the audit.

Responding to Mr. Miller's question of keeping J.C. DeCaux 's audit findings as open items, Mr. Hutchinson reported that those issues had already been fully addressed and that it should actually be listed as 'closed.'

Prior to moving forward with other scheduled items, Commissioner Hara noted the presence of Laurie Tish of Moss Adams. Ms. Tish commented that she would return at the October committee meeting to present the Moss Adams engagement service plan, and would also allow time for discussion of the recent management letter of recommendations.

### **Discussion of Audit Committee Goals and Objectives**

Committee member Miller noted that the status of the committee goals and objectives remained the same as last month, and suggested that it would be helpful to have further input regarding action steps needing to be taken as well as a conversation about the committee's long-term goals in terms of the annual calendar. He also commented that there could be discussion of the possibility of focus on enterprise risk management and having management present to the committee their risks and how they respond to those risks.

Commissioner Tarleton stated that she would very much like to see a programmatic approach to having briefings from management regarding how they view enterprise risk and how they are taking new policies adopted by the Commission and incorporating procedures into their business units.

Commissioner Tarleton commented on two major areas of work remaining for this year, which are the entrance audit meeting in preparation for the next SAO's next performance audit and also the external audit with Moss Adams, noting that those two efforts would possibly take up the majority of the committee's time of the next four months.

Commissioner Hara noted that also remaining was follow-up on the TKW audit, which had a long list of findings to be reported on.

Commissioner Hara stated that he felt that future internal audits should have more focus on the management side rather than strictly regarding legal compliance or contract issues.

Commissioner Tarleton stated she felt there should be a draft internal risk assessment and management program created by the end of this year in order to help measures being implemented within the Port.

Commission Hara referred to conditions to be addressed by the end of the year, those being real estate and the proper funding of Port activities, social responsibility and social justice issues, and environmental issues.

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Committee member Miller advised that due to a culture change and needed training, it could take a while before Port staff had a good understanding of what enterprise risk management really includes, and stated the best way to start is with small steps. He suggested that it may be good to start with business systems that cut across the entire Port, such as legal or personnel systems.

Ms. Strout requested that staff receive some guidance from the audit committee as to which systems would be good to work on at this point.

Ms. Kirangi stated that she would like to see further direction to the internal audit department as to next year's work plan. More specifically, she requested direction regarding the area of enterprise risk management, suggesting they look at two or three areas to begin the process. She also requested further direction regarding information the committee might be seeking in upcoming program performance audits.

Committee member Miller suggested that in the future, management would be doing their own business risk assessments, and that 'cross departmental' audits, would in turn drive a lot of the audit focus.

Commissioner Tarleton suggested that members of senior staff start attending audit committee meetings.

Committee member Miller recommended that work progress on ideas voiced at this meeting in order to further create the committees goals and objectives. He also stated that he agreed with the idea of having a rolling calendar, which would show a 12-month outlook for audit committee expectations. He also suggested having a 5-minute discussion at each committee meeting to review where the committee is headed over the next 90 days.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 10:48 a.m.

Lloyd Hara