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An audio of the meeting proceedings and meeting materials are available on the Port of Seattle web site -

<http://www.portseattle.org/about/organization/commission/commission.shtml>

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING SEPTEMBER 1, 2009**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, September 1, 2009 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Committee members Creighton, Hara and Miller were present, as well as Deputy CEO Linda Strout and Joyce Kirangi, Port Internal Audit Manager. Commissioner Tarleton was also in attendance.

CALL TO ORDER

The committee special meeting was called to order at 9:00 a.m. by Commissioner Lloyd Hara.

Approval of Minutes

Motion for approval of the Minutes of July 7, 2009 and August 4, 2009 – Creighton

Motion carried by the following vote:

In Favor: Creighton, Hara (2)

Mr. Miller participates as a non-voting member of the Committee.

Internal Audit Report of Aviation Acquisitions and Relocation

Presentation documents: Computer slide [presentation](#) from Jack Hutchinson, Manager, Internal Audit Department and report titled, '[Internal Audit Report – Acquisition and Relocation Department Audit](#).'

Presenter: Mr. Hutchinson

As background, Mr. Hutchinson stated that this department manages property acquisition and subsequent relocations of tenants as part of the Airport's noise remediation efforts. The Port works with the tenants as a landlord.

Mr. Hutchinson noted that the purpose of this audit was to identify and assess department operations to determine whether management has established adequate controls, specifically to 1) ensure that the Port's assets are adequately safeguarded and are properly accounted for at all times, and 2) promote and ensure compliance with Port policies in disbursements and procurements. He clarified that the audit was not looked at from the perspective of any Federal grants, as that is something covered by Moss Adams, and that the internal auditor did not want to duplicate those efforts.

Mr. Hutchinson stated that it was found that the department did not have adequate controls in three specific areas:

- Incomplete accountability over rent collection
- Inadequate controls over cash collection
- Noncompliance with Port procurement and disbursement policies and procedures

Regarding the rent collection, Mr. Hutchinson noted that although the department does have a complete roster of tenants from whom they expect monthly rent payments, the department does not actually bill those tenants and does not know what the total monthly expected rent should be. Also noted was the fact that although the department did have some level of controls, those controls were just not to the level that internal audit would like to see. He also acknowledged that this is a difficult thing to do as tenants are relocated on a continuous basis and the amounts change over time.

Mr. Hutchinson stated that the department had been accounting for incoming payments and processing those, but they were not certain of how much was supposed to be collected. Responding to a question from Commissioner Hara, Mr. Hutchinson clarified that the department had no real billing or accounts receivable system, however they did have a structure for processing and depositing payments which included the use of an armored car service.

Deputy CEO Strout posed the question, and Mr. Hutchinson clarified that the information discussed in the report were limited to the acquisition of the mobile home parks rather than the commercial properties or the single family residences that have been a large part of the acquisition program.

Responding to a question from Committee member Miller as to whether or not there were plans to acquire more mobile home parks, Mr. Hutchinson responded that he did not believe so.

Regarding inadequate controls over cash collection, Mr. Hutchinson clarified that the definition of what was referred to as 'cash' included personal checks, travelers checks, and cashier's checks, and stated that the department does not receive any 'real cash.' He

noted that the department did not really have good control surrounding cash payments, partially due to the fact that payments were collected via a drop box, the slot of which went into a department office which was accessible to all staff, allowing for a greater possibility of errors. He stated that the audit found the department did not have a proper segregation of duties and recommended strengthening this area.

Regarding procurement and disbursement policies and procedures, Mr. Hutchinson commented that no instances of misappropriation had been found during the period of audit, but stated that a lot of this finding has to do with a lack of documentation retained within the department. He reviewed recommendations made to the department as a result of the audit findings, which included the need to ensure the entire department has the necessary knowledge base necessary to comply with Port policies, procedures and guidelines.

The following staff members were then introduced to provide comments and answer any questions that the Committee may have: Jim Schone, Director, Aviation Business Development and Management; Allan Royal, Real Estate Development Manager; and Jude Barrett, Manager, Aviation Property Acquisition.

Mr. Schone expressed his appreciation for the work that the audit team had done in reviewing the department, noting that it had been a collaborative process. He assured the Committee that the department has begun implementing the recommendations made by the audit team and also noted that the mobile home park acquisition program is one that is now winding down.

Responding to questions from Commissioner Hara about how many tenants are left to relocate, staff noted that there are 30 remaining in the Town & Country Mobile Home Park. Mr. Barrett also commented that there was one 16-unit building remaining for acquisition.

Mr. Royal assured the Committee that the accounting department had been highly involved in the structuring of the rent collection process, and also spoke of the difficulties in absorbing over 200 tenants that change monthly.

Commissioner Hara stated that he would like the department to return to the Committee in approximately 90 days to provide a follow-up on the implementation of audit recommendations in order to bring closure to this area.

Commissioner Tarleton asked that going forward, staff relationships with the property managers be monitored more effectively, and stated that she would like to see monthly invoice approvals of the property management fees, and she also reiterated the importance of good documentation.

Regarding the Port's acquisition procedures, Commissioner Hara commented that they should perhaps be examined in upcoming revisions to Port Resolution No. 3605.

Internal Audit Report of Aviation Security Department

Presentation documents: Computer slide presentation from Jack Hutchinson, Manager, Internal Audit Department and report titled, "[Internal Audit Report – Aviation Security Department.](#)"

Presenter: Mr. Hutchinson

As introduction, Mr. Hutchinson stated that the Aviation Security Department, in addition to the Port Police, is responsible for the security in general in the area surrounding the Airport as well as within the perimeter of the Airport.

Mr. Hutchinson stated that overall this was a clean audit and there were no findings that resulted. He stated that the general areas of the audit covered procurement practices and payroll activity.

Commissioner Hara asked whether or not the audit team had looked at the function of the Security Department as a part of the audit. Mr. Hutchinson responded that within this audit, focus on risk management and performance were introduced, although that would not be the primary focus. He stated that the audit team had not seen anything to suggest that the operation of the department was not effective.

Lease and Concession Audit: Fireworks Gallery

Presentation documents: Computer slide presentation from Jack Hutchinson, Manager, Internal Audit Department and report titled, "[Internal Audit Report – Fireworks Lease and Concession Compliance Audit.](#)"

Presenter: Mr. Hutchinson

Mr. Hutchinson stated that the primary focus of this audit was to determine compliance with the provisions of the Lease and Concession Agreement for Fireworks. He noted that the lessee materially complied with the terms and conditions of the agreement; however, there were two instances of late payments that resulted in late charges and interest due to the Port. The suggested financial recovery was \$1,366.14. He commented that the audit team recommendation was for Aviation Business Development to bill and collect the suggested recovery amount, and he also noted that over the two year period which was audited, this amount was not significant.

Proposal for Moss Adams 2009 Audit Engagement Services

Presentation document: [Memorandum](#) to Audit Committee dated August 27, 2009 from Dan Thomas, Chief Financial Officer and Rudy Caluza, Director, Accounting and Financial Reporting.

Presenter: Mr. Caluza

As introduction to Mr. Caluza's briefing, he noted that annual independent audits are required for the financial statements of the Port, federal regulatory grant compliance, as well as the Passenger Facility Charge (PFC) at Sea-Tac Airport. He stated that the State Auditor's Office (SAO) conducts the Public Accountability/Legal Compliance and Performance Audits, and a national/regional independent CPA firm conducts the three audits previously mentioned. The CPA firm of Moss Adams was selected and awarded the contract in 2006 to conduct the audit services for those three audits. He noted that the briefing today was to provide information on the request to exercise the first of the two-year options to cover the 2009 audit period.

Mr. Caluza stated that the Port has established a priority to have a contract cost reduction initiative, which requires departments at the Port to negotiate with its contractors and consultants to reduce the costs of contracts, and therefore the costs to the Port of Seattle with regard to pursuing services. He noted that Moss Adams has agreed to meet the full 5% in contract cost reduction for the renewal, for a cost of \$578,000 compared to the 2008 amount of \$608,000.

Commissioner Hara mentioned the fact that the Port has worked with Moss Adams for the past three years, stating that it was up to the Port to decide whether or not to change auditors at this point. Mr. Caluza affirmed that staff recommendation was to move forward with a renewal of the contract with Moss Adams, and noted that Moss Adams is a nationally recognized firm.

Responding to questions from Commissioner Hara as to which other Seaports are required to use nationally recognized CPA firms because they do not have a State Auditor's Office that would be able to do the same work, Mr. Caluza stated that he could do some research and provide that information.

Commissioner Creighton clarified that approval of a contract for the auditing services would go before the full Commission approval.

Commissioner Hara asked what the timing is in terms of the next audit. Mr. Caluza stated that the field work, risk assessment, and audit scoping needs to begin next month (October).

Commissioner Creighton commented on the importance of rotation of auditors to maintain independence, while on the other hand recognizing the value of having an auditor that has developed expertise in an organization to continue on. He stated that he was not prepared to make a recommendation at this time.

Mr. Caluza clarified that there is nothing that requires audit firm rotation, but noted that the Sarbanes-Oxley Act does speak to the rotation of audit partners.

Committee member Miller commented on several issues, including that of the rotation of audit firms vs. audit partners and stated his belief that it is good to have a rotation of the audit partner in charge from time to time.

Mr. Miller voiced a concern that during his time as a member of the Committee, he has constantly heard problems related to procurement, and wondered since there have been so many changes within the Port since 2006, whether or not the procurement policies in place then would meet the standards of current procurement policies. He noted that to consider that may help make the decision of how to proceed with the audit services question. He also raised the question of whether or not current procurement would allow a switch in auditing services without going out for bid.

Mr. Miller also asked the question of both proposals (Moss Adams and the SAO) how many hours of engagement were involved in coming up with the proposed prices. He also requested information on whether or not both entities had completed their client retention procedures.

Laurie Tish, partner with Moss Adams, was invited to respond to Mr. Miller's questions, stating that the number of hours proposed for their 2009 audit services matches fairly closely to what was incurred in 2008, that being a minimum of 3800 hours, with an additional cushion of 200 hours in case any complications or unexpected items arise. She stated that Moss Adams had completed their client retention. As a follow-up to an earlier question about peer review reports, Ms. Tish noted that under government auditing standards, they are required to provide their peer review reports along with their engagement letter, and they do so each year. She stated that their most recent peer review report was in 2008 and it was unqualified.

Responding to Mr. Miller's question about a deadline of April 30 for financial statements, Mr. Caluza stated that it was a deadline that the Port of Seattle tries to hold itself to.

Commission Hara suggested that Ms. Tish might like to provide her thoughts as to why Moss Adams should be retained for another year. Ms. Tish reiterated that Moss Adams very much values their relationship with the Port of Seattle, and stated that the firm has a thriving practice in serving the businesses of government. She also commented on the unique training that the firm's staff receives.

State Auditor's Office (SAO) 2009 Engagement Offer

[Presentation document](#): A copy of a letter to Commissioner Hara dated July 21, 2009 from Carol Ehlinger of the State Auditor's Office was provided regarding the proposed cost of auditing services

Presenters: Tony Martinez and Reid Richards, both of the State Auditor's Office

Mr. Martinez stated that the estimate of charges for the SAO to complete the Port's 2009 Financial Statement Audit, Federal Single Audit, and Passenger Facility Charge Audit would be approximately \$298,680, and he clarified to the Committee that this amount was based on 3800 hours of work.

Commissioner Hara stated his concern of the timeliness of reporting, noting that the Port has yet to receive the report on the last compliance audit which was done. He asked what the intended timeframe would be for getting results to the Port for the proposed services. Mr. Martinez responded that they would plan to meet the Port's desired deadline of April 30.

Responding to a question from Commissioner Tarleton as to whether or not the SAO had completed their client retention procedures, it was clarified that this is not something the SAO normally does, as they are the auditor of all public accounts and that technically they do not have to offer letters of engagement.

Commissioner Hara raised a question of what is happening at other port authorities in terms of state auditors' offices. Mr. Martinez commented that he would make some inquiries and provide the information to the Committee.

Commissioner Hara then asked if there were further comments as to why the SAO should be considered. Mr. Martinez stated they are independent auditors, and even though they work in a political environment, the head of their agency is independently elected. He stated that their audits are designed to comply with professional standards, and he noted that they are a peer reviewed organization and that their last peer review was unqualified.

Following the SAO presentation, Ms. Strout addressed a question which was raised earlier by Mr. Miller. She commented that it might be useful for the Committee to have both a short description of the 2006 procurement process as well as what the current process would require in terms of the scope of participants. She stated that the information could be provided quite quickly by memo.

Commissioner Hara commented on the importance of quality and timeliness of work as well as the cost factor.

Commissioner Creighton stated that he believes the full Commission should review this procedure on an annual basis, noting that he understood the value of continuity, but that continuity vs. price vs. having a new set of eyes are all factors that need to be weighed.

Mr. Miller commented on the difficulty of weighing quality vs. cost.

Motion that the Committee allow both proposals to go before the full Commission was made by Commissioner Creighton.

Motion carried by the following vote:

In Favor: Creighton, Hara (2)

Mr. Miller participates as a non-voting member of the Committee.

Review of updated tracking calendar

Mr. Barnard, Commission Policy Analyst, stated that he would update the tracking calendar on a monthly basis to reflect upcoming items, and would provide the calendar to the Committee.

A suggestion from Mr. Miller regarding the calendar was that a discussion of the 2010 Internal Audit Workplan be added to November, 2009.

There was discussion as to whether the Committee is done receiving risk management reports for the year. Mr. Miller stated that he just does not want to see the ball dropped as far as receiving these reports.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:29 a.m.

(A digital recording of the meeting is available on the Port's website.)

Lloyd Hara, Commissioner